

US Government Outsourcing, the Private Military Industry, and Operation Iraqi
Freedom: A Case Study in Conflict Contracting

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Abstract

This thesis analyzes state utilization of private military and security companies (PMSC), using United States Government (USG) outsourcing during Operation Iraqi Freedom (OIF) as a case study to investigate how PMSCs influence interstate conflicts. Cost savings are a primary justification for outsourcing. Government sources also suggest wartime outsourcing increases military effectiveness. This thesis investigates whether PMSC activities in Iraq have delivered such monetary savings and operational enhancements. Whether wartime contracting impacts waste, fraud, and corruption in the conflict and post conflict environment, particularly in the case of OIF, is also analyzed.

TABLE OF CONTENTS

TABLE OF FIGURES.....	3
LIST OF ACRONYMS	4
CHAPTER 1	
THE PRIVATE MILITARY INDUSTRY AND US OUTSOURCING DURING OPERATION IRAQI FREEDOM.....	
	7
RESEARCH QUESTIONS AND METHODOLOGY	11
<i>Limitations and Future Research</i>	13
OVERVIEW OF THE FOLLOWING CHAPTERS	14
CHAPTER 2	
THE PRIVATE MILITARY INDUSTRY – DEFINITIONS, DEVELOPMENTS, AND DEBATES	
	15
PMSCs INFLUENCING GOVERNMENTS	19
GOVERNMENTS MISUSING PMSCS	20
PMSCS AND MILITARY PROFESSIONALISM	22
US GOVERNMENT CONTRACTING FOR WARTIME SUPPORT – A BRIEF HISTORICAL OVERVIEW	23
CONTINGENCY CONTRACTS	24
IRAQ – A BRIEF HISTORICAL OVERVIEW	26
<i>Iraq After the 2003 US-led Invasion – Political Developments</i>	30
<i>Iraq After the 2003 US-led Invasion – Socioeconomic Conditions</i>	32
PRIVATE MILITARY AND SECURITY COMPANIES IN IRAQ.....	33
CHAPTER 3	
US OUTSOURCING DURING OPERATION IRAQI FREEDOM: THE COSTS	
	43
WHY OUTSOURCE?	44
CONTEMPORARY MILITARY OUTSOURCING – THE STRATEGY	46
COMPETITIVE CONTRACTING	47
CONTRACT MANAGEMENT.....	50
<i>Personnel Shortages</i>	52
GOVERNMENT PROVISION VERSUS CONTRACTOR PROVISION: THE COSTS.....	54
<i>Security Services – The Congressional Budget Office’s Cost Comparison</i>	55
<i>Security Services – The Government Accountability Office’s Cost Comparison</i>	57
LABOR – COMPENSATION SAVINGS.....	60
THE (UN) PREDICTABILITY OF CONFLICT	63
SUBCONTRACTING	65
CONCLUSION	66

CHAPTER 4

US OUTSOURCING DURING OPERATION IRAQI FREEDOM: THE BENEFITS	67
SPEED AND SPECIALIZATION	68
SOLDIERS FOR COMBAT	71
<i>Contractors for Combat?</i>	<i>73</i>
HOST COUNTRY EMPLOYMENT BENEFITS.....	76
AVOIDING CONSCRIPTION.....	79
CONCLUSION	82

CHAPTER 5

WASTE, FRAUD, AND CORRUPTION IN CONFLICT CONTRACTING	84
INSTITUTIONALIZING WASTE	84
<i>Poor Contracting Practices: Cost-Plus Contracts</i>	<i>85</i>
<i>The Global Maintenance and Supply Services Contract.....</i>	<i>89</i>
<i>Iraqi Involvement.....</i>	<i>90</i>
<i>Depending on Contractors.....</i>	<i>92</i>
<i>Overcharging and Under Delivering.....</i>	<i>93</i>
FACILITATING FRAUD AND CORRUPTION.....	95
CONCLUSION	99

CHAPTER 6

PMSCS AND CONFLICT – CONCLUSIONS	100
THE RELATIONSHIP BETWEEN BUSINESS AND WAR	100
<i>Contemporary Connections.....</i>	<i>104</i>
PMSCS AND THE DURATION OF CONFLICT.....	105
<i>Silencing the Opposition</i>	<i>106</i>
<i>Counterproductive Contracting</i>	<i>107</i>
CONCLUSIONS.....	109

BIBLIOGRAPHY.....	112
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Table of Figures

<i>Figure 1: Global Defense Budgets: Top Ten</i>	<i>10</i>
<i>Figure 2: Map of Iraq</i>	<i>26</i>
<i>Figure 3: Geographic Composition of Religious and Ethnic Populations in Iraq</i>	<i>28</i>
<i>Figure 4: Department of Defense Contractor and Military Personnel Estimates: September 2007 - December 2010</i>	<i>36</i>
<i>Figure 5: DOD, USAID, and State Department Contractor Personnel: December 2007 - December 2010.....</i>	<i>37</i>
<i>Figure 6: DOD Contractor Personnel by Type of Service Provided</i>	<i>38</i>
<i>Figure 7: Contract Spending 2003-2007.....</i>	<i>39</i>
<i>Figure 8: Contracts Principally Performed in Iraq and Kuwait: 2003-2010..</i>	<i>40</i>
<i>Figure 9: Contract Spending by Country of Performance 2003-2010</i>	<i>41</i>
<i>Figure 10: Elements of Department of Defense Contract Management</i>	<i>51</i>
<i>Figure 11: GAO Cost Comparison.....</i>	<i>59</i>
<i>Figure 12: GAO Cost Comparison: Contractor Labor Force by Nationality</i>	<i>60</i>
<i>Figure 13: DOD Contractor Personnel in Iraq by Nationality.....</i>	<i>77</i>
<i>Figure 14: Gallup Poll.....</i>	<i>81</i>
<i>Figure 15: CBS News Poll</i>	<i>81</i>

List of Acronyms

BENS – Business Executives for National Security

CBO – Congressional Budget Office

CERP – Commanders Emergency Response Program

COR – contract officer representative

CPA – Coalition Provisional Authority

CRS – Congressional Research Service

CTSO – Counter Terrorism / Special Operations

DCAA – Defense Contract Audit Agency

DCMA – Defense Contract Management Agency

DFAR – Defense Federal Acquisition Regulation

DLA – Defense Logistics Agency

DOD – Department of Defense

DOD-IG – Department of Defense Inspector General

DOSAR – Department of State Acquisition Regulations

DSB – Defense Science Board

DVA – Department of Veterans Affairs

EO – Executive Outcomes

ERU – Emergency Response Unit

FAIR – Federal Activities Inventory Reform

FAR – Federal Acquisition Regulations

FPDS-NG – Federal Procurement Data System–Next Generation

GAO – Government Accountability Office

GMASS – Global Maintenance and Supply Services

GOCO – government-owned-contractor-operated

GOI – Government of Iraq

GWOT – Global War on Terrorism

IGC – Iraqi Governing Council

IRMO – Iraq Reconstruction and Management Office

IRR – Individual Ready Reserve

IRRF – Iraq Relief and Reconstruction Fund

ITAO – Iraq Transition Assistance Office

IRRF – Iraq Relief and Reconstruction Fund

KBR – Kellogg, Brown, & Root

LOGCAP – Logistics Civil Augmentation Program

MPRI – Military Professional Resources Incorporated

NATO – North Atlantic Treaty Organization

OAT – Office of Accountability and Transparency

ODTC – Office of Defense Trade Controls

OEF – Operation Enduring Freedom

OIF – Operation Iraqi Freedom

OMB – Office of Management and Budget

OPEC – Organization of Petroleum Exporting Countries

ORHA – Office of Reconstruction and Humanitarian Affairs

PMC – private military company

PMF – private military firm

PMI – private military industry

PMSC – private military and security company

PSC – private security company / contractor

RBA – Revolution in Business Affairs

RMK-BRJ – Raymond International, Morrison-Knudsen, Brown and Root, and
J.A. Jones Construction Company

R&R – rest and recuperation

SIGIR – Special Inspector General for Iraq Reconstruction

SOW – statement of work

SPOT – Synchronized Predeployment and Operational Tracker

UN – United Nations

UNAVEM – United Nations Angola Verification Mission

UNITA – National Union for the Total Independence of Angola

US – United States

USG – United States Government

USAID – United States Agency for International Development

USIS – US Investigative Services

Chapter 1

The Private Military Industry and US Outsourcing During Operation Iraqi Freedom

This thesis analyzes state utilization of private military and security companies (PMSC), using United States Government (USG) outsourcing during Operation Iraqi Freedom (OIF) as a case study to investigate how PMSCs influence interstate conflicts. Some of the stated benefits of hiring PMSCs are economic, as cost savings and efficiencies are a primary justification for outsourcing, yet the high monetary costs of the war indicate that the effectiveness of wartime spending deserves further scrutiny. Government sources suggest outsourcing to these companies increases military effectiveness. This thesis investigates whether PMSC activities in Iraq have delivered such increases and efficiencies. Whether wartime contracting contributes to waste, fraud, and corruption in the conflict and post conflict environment, particularly in the case of OIF, is also analyzed.

The military is generally perceived as providing a public good: national security. This is one of the primary duties of the state.¹ Unlike other government provided services that have oscillated between public and private provision due to “issues of cost, quality, or changing conceptions of governmental duties,”² military service provision has been an uncontested public good since the nation state system solidified.³ Although military outsourcing is not new, as contractors have been utilized by state militaries to some extent for centuries, essentially since the nation state system began, the degree to which wartime services have been contracted out and the scope of the services performed by private sector personnel over the past 20 years is certainly unprecedented. This trend is not limited to the US. State military outsourcing is a global phenomenon.⁴

The tremendous growth of the private military industry (PMI) during the past 20 years is often associated with the end of the Cold War.⁵ Political perceptions of potential military threats declined in the wake of the Cold War, leading many states to reduce their active military personnel. Thus, a surplus of military labor moved into the private sector. Some of these individuals chose to

¹ See the Constitution of the United States, Article I, Section XIII

² Peter Singer, *Corporate Warriors - The Rise of the Privatized Military Industry* (Ithica: Cornell University Press, 2008), 7.

³ Military goods, on the other hand, have been privately produced for states since at least the nineteenth century.

Ibid., 6–7, 274.

⁴ Christopher Kinsey, *Corporate Soldiers and International Security: The rise of private military companies* (New York: Routledge, 2006), 101; Armin Krishnan, *War as Business: technological change and military service contracting* (VT: Ashgate, 2008), 1; Singer, *Corporate Warriors*, 8.

⁵ Robert Mandel, “The Privatization of Security,” *Armed Forces & Society* 28, no. 1 (2001): 131; Jackson Nyamuya Maogoto, “Subcontracting Sovereignty: Commodification of Military Force and Fragmentation of State Authority,” *Brown Journal of World Affairs* XIII, no. I (Fall/Winter 2006): 148; Peter Singer, “Corporate Warriors: The Rise of the Privatized Military Industry and Its Ramifications for International Security,” *International Security* 26, no. 3 (2002 2001): 188.

capitalize on their unique set of military skills, providing their services for private profit and shifting the relationship between public and private service.⁶

Economic considerations are not the only or even the primary concern during war. The primary concern during war, at least for the state, is winning it, even if what constitutes a victory in many contemporary wars may be hard to define. Nevertheless, economic processes are embedded in war and are considerable factors in determining winners and losers. Thus, the economic aspects of war must be considered alongside the political aspects. Consequently, the costs and benefits of utilizing PMSCs during war, as well as the ways in which their significant presence alters the dynamics of war and post-conflict environments, are emerging areas of study. PMSCs are significant actors in Iraq and have been since OIF began. Through government contracts for wartime support services, PMSCs are economic beneficiaries of war and thus have an investment in it. That investment may compel companies to act in their best financial interests, which may not coincide with the political and diplomatic goals and interests of the state that hired them.

Although some incidences of contractor misconduct in Iraq have been highly publicized, most people likely remain unaware of the extent to which the US has relied on contractors in Iraq. Contractors outnumber troops in Iraq and probably have for most of the war's duration,⁷ which may seem counterintuitive since the US is widely considered the world's largest military power. The 2009

⁶ Singer, *Corporate Warriors*, 53.

⁷ Attempts to collect comprehensive data on the numbers of contractor personnel in Iraq were reportedly not initiated until 2007.

Congressional Budget Office, *Contractors' Support of U.S. Operations in Iraq*, CBO Paper (Washington DC: The Congress of the United States, 2008), 10.

US defense budget totaled \$693 billion (see figure 1).⁸ To put this amount in perspective, US defense expenditures accounted for 46.5% of global military expenditures in 2009.⁹ The extent to which the US has outsourced support in Iraq seems contrary to the country's defense capabilities, if measured by its defense expenditures.

Figure 1: Global Defense Budgets: Top Ten

Global Defense Budgets: Top Ten	
	2008
United States	\$693
China	\$70
United Kingdom	\$61
Japan	\$50
France	\$46
Germany	\$44
Saudi Arabia	\$41
Russia	\$38
India	\$34
Brazil	\$28

Billions of US \$

Data Source: *The Military Balance*, 2011

The rise of the PMI in recent decades has gone hand in hand with the intensification of government outsourcing initiatives. These efforts have been made to streamline government operations.¹⁰ Subsequently, the USG has

⁸ "Chapter Ten: Country comparisons – commitments, force levels and economics," *The Military Balance* 111, no. 1 (February 2011): 469.

This figure does not include the costs of the wars in Iraq and Afghanistan.

⁹ Anup Shah, "World Military Spending", July 7, 2010.

¹⁰ USG policies that encourage or outline activities suitable for private sector performance include the Office of Management and Budget's (OMB) Circular A-76, first issued in 1966 and subsequently amended multiple times, and the 1998 Federal Activities Inventory Reform (FAIR) Act.

outsourced a wide variety of defense services. Examples of such services include depot maintenance, transportation, aircraft and weapons maintenance, satellite services, modeling and simulation, and information technology services.¹¹

Although outsourcing initiatives have been implemented purposively and typically for normal maintenance and operations services, outsourced services have become an increasingly sizable aspect of wartime operations as well.

Research Questions and Methodology

In this thesis, OIF is used as a case study to analyze the impact of PMSCs on interstate conflicts. The following questions are investigated in this analysis:

- 1) How is outsourcing to PMSCs thought to increase cost savings? To what extent have anticipated cost savings been realized in the case of OIF? How are the savings for wartime service contracts determined?
- 2) How is the use of PMSCs thought to increase military effectiveness? Have these benefits been realized in the case of OIF?
- 3) Has OIF outsourcing increased the availability or number of combat troops?
- 4) Does outsourcing wartime support services to PMSCs increase or decrease the prevalence of corruption, fraud, and waste? If so, how?
- 5) What is the relationship between the utilization of PMSCs and the duration of conflict?

John R Luckey, Valerie Bailey Grasso, and Kate M Manuel, *Inherently Governmental Functions and Department of Defense Operations: Background, Issues, and Options for Congress*, CRS Report for Congress (Congressional Research Service, 2010), 5–7.

¹¹ Krishnan, *War as Business*, 49–151.

The method used to conduct this research is a review and analysis of primary and secondary materials. Materials were identified by searching online databases, including academic databases such as Academic OneFile, Google Scholar, ProQuest Research Library, Sage Journals Online, and SpringerLink; and a variety of government websites, including those of the Government Accountability Office (GAO), the Special Inspector General for Iraq Reconstruction (SIGIR), the Congressional Budget Office (CBO), and the Department of Defense (DOD). Keywords searched include *private military/security companies/firms, outsourcing, military outsourcing, private military industry, corruption, post conflict, Operation Iraqi Freedom, contingency contracts, defense contracts, contractors, corporations, business, war, and Iraq war/reconstruction*. These keywords were searched in a variety of combinations, depending upon the relevance of articles being returned in each database.

A wide variety of audiences may be interested in this research. Academic disciplines that could be enriched by this research include political science, international and globalization studies, peace and conflict studies, business, history, and military and security studies. Policy makers, the US DOD, and other government agencies would also find this analysis useful in order to better understand the implications of this industry on state military operations and government policies and activities. Also interested may be the PMI itself. US citizens and taxpayers fund outsourced military and security services; thus this analysis would be of interest to them as it increases transparency and elucidates USG OIF expenditures.

Limitations and Future Research

This research is limited by the publicly available data on contract spending and contractor personnel; aggregate data is not available on OIF contractor personnel prior to 2007, four years after the conflict began. Data limitations restricted possibilities for analyzing trends in contractor personnel numbers or functions in depth, as the validity and reliability of the data is too uncertain to draw meaningful conclusions. However, the available data does provide a reasonable depiction of general contracting trends, and at minimum, confirms the significance of the contractor presence. The sources used in this research were limited to documents in English. Documents in other languages, particularly Arabic, certainly could have contributed valuable information to this analysis.

Comparisons between and within conflicts are interesting areas for future research. A study comparing US and British outsourcing during OIF could illuminate differences in outsourcing approaches across countries within the same conflict. A contrast of US outsourcing during OIF and US outsourcing during Operation Enduring Freedom (OEF) would be interesting since OIF and OEF have been largely concurrent conflicts. These studies would contribute to identifying trends in government outsourcing during wartime. Further analyses of the costs and benefits of outsourcing during conflict, financial and otherwise, as well as how to measure and determine these costs and benefits would significantly add to the current literature. These analyses could contribute to understanding whether, to what extent, and in what situations wartime

outsourcing is financially or operationally preferable to performing services in-house. Further investigation into the interrelations between PMSCs and governments could shed light on the PMI's power and political influence. Related research could analyze the extent to which specific wartime services have been outsourced in relation to the military's remaining in-house capabilities.

Overview of the Following Chapters

Chapter two introduces the PMI, USG outsourcing for conflict support services, the state of Iraq before and after the US-led invasion in 2003, and PMSCs in Iraq during OIF. Chapter three analyzes the primary reason for outsourcing, cost savings. OIF outsourcing is examined within the theoretical framework on outsourcing. Cost comparisons are reviewed and analyzed. Chapter four outlines additional justifications for outsourcing, particularly as stated by the USG. The stated benefits of outsourcing are analyzed with respect to outsourced operational support in Iraq to determine the extent to which these stated benefits have been realized. Chapter five investigates waste, fraud, and corruption in OIF contracting. The concluding chapter, chapter six, considers the relationship between business and war and how this affects conflict dynamics and duration and summarizes the research findings presented in this thesis.

Chapter 2

The Private Military Industry – Definitions, Developments, and Debates

Academic, governmental, and popular sources use the terms *private military and security companies* (PMSC), *private military companies* (PMC), and *private military firms* (PMF) interchangeably to refer to companies offering the whole spectrum of wartime services, while the term *private security companies/contractors* (PSC) often refers specifically to armed security providers.¹² USG publications typically use the term *private security contractors* (PSC) to differentiate between companies providing armed security services and companies providing other operational support, such as logistics or construction.¹³ Despite this conceptual differentiation in some cases, these terms are often used as blanket descriptors for any companies involved in the provision of services related to military and security operations. For the purposes of this

¹² See, for example, Deborah Avant, *The market for force : the consequences of privatizing security* (New York: Cambridge University Press, 2005); David Isenberg, *Shadow force : private security contractors in Iraq* (Westport Conn.: Praeger Security International, 2009).

¹³ Congressional Budget Office, *Contractors' Support*, 2.

analysis, which focuses on defense and military outsourcing more generally, the term *private military and security companies* (PMSC) will be employed, referring to the whole spectrum of contracted service providers, while the term *private security companies* (PSC) will designate armed security providers specifically.

PMSCs offer a wide variety of products and services to governments, nongovernmental organizations, supranational and international institutions, individuals, and corporations – essentially anyone who can pay or anyone who can at least provide the promise of future payment. The services PMSCs provide range from cooking meals to firing at the enemy. Service sectors include direct combat operations, military training, security services, intelligence gathering and analysis, transportation services, construction and energy related services, and logistical support.¹⁴

The PMI is developing along a path similar to other industries, as companies consolidate, collaborate, and transnationalize to maximize their profit making potentials. US based Armor Holdings exemplifies these trends, acquiring over twenty companies in the late 1990s and expanding its reach across the globe with operations in more than 50 countries.¹⁵ Recent industry research also supports these developments. In conducting a survey of executive level professionals from US based PMSCs, surveyors Nicholas Dew and Bryan

¹⁴ Avant, *The Market for Force*, 123; Singer, “Ramifications for International Security,” 186.

¹⁵ Singer, *Corporate Warriors*, 83–85.

Hudgens discovered “more than a dozen”¹⁶ companies had been bought out by larger PMSCs. This illustrates the industry’s dynamism, as companies rapidly adapt to changing market demands, strategically using acquisitions to increase the service varieties a company has to offer.¹⁷

Dew and Hudgens surveyed PMI executives and used their response data to identify nine market sectors within the industry.¹⁸ These include logistics and transportation; intelligence services; base operations and facilities management; security; maintenance and repair; construction services; medical services; training, advising, and mentoring; legal services; explosive ordinance disposal and de-mining; and aviation related services. Sixty-four percent of survey respondents claimed to offer services in four or more of these areas, and just 13% offered services in only one area.¹⁹ Maintenance and aviation service providers correlated with higher revenues.²⁰ Most companies surveyed said they worked “mainly” for the US DOD, and many also reported working for the US State Department.²¹ Bigger companies were more likely to work for large organizations such as the US DOD or NATO, and larger companies were also more likely to provide services outside of the US. OIF contractors with the largest contracts, some worth billions of dollars, are companies that offer a multitude of services with multinational operations.

¹⁶ Kenneth H Curtis, Paul J Marko, and John J Parma, *Understanding Market Segments and Competition in the Private Military Industry*, MBA Professional Report (Monterey: Naval Postgraduate School, 2009), 28.

¹⁷ *Ibid.*, 28–30.

¹⁸ *Ibid.*, 64.

¹⁹ *Ibid.*, 41.

²⁰ *Ibid.*, 23–25.

²¹ *Ibid.*, 34.

Deborah Avant examines the global market for defense services and how this market affects the distribution of power among states and non-state actors. Avant argues that security privatization “has created a global market for force that is shifting power within states, between states, and between states and non-state actors.”²² A debate exists as to whether PMSCs constitute a threat to state sovereignty. Those who argue PMSCs threaten state sovereignty contend these companies challenge the state’s monopoly on violence, which is a fundamental justification for the state’s existence.²³ PMSCs, when utilized by states, can empower some states while disempowering others. Additionally, the ability of non-state actors, whether groups or individuals, to buy services PMSCs provide can potentially challenge the state.

Christopher Kinsey argues that PMSCs are “a new type of security actor on the international stage.”²⁴ He cites South African based Executive Outcomes’ (EO) 1993 contract with Angola as a watershed in the industry’s trajectory. EO’s operations in Angola served as an example of a private business successfully carrying out military services, illustrating a potential foreign policy tool on which other states would later draw. PMSCs allow governments to exert influence while maintaining political and potentially economic distance.²⁵ EO sold combat services to the Angolan government in the 1990s. EO helped Angolan military forces contain powerful rebel groups. United Nations (UN) peacekeeping forces had been in Angola for several years before the Angolan government signed a

²² Avant, *The market for force*, 121.

²³ Maogoto, “Subcontracting Sovereignty,” 71; Virginia Newell and Benedict Sheehy, “Corporate Militaries and States: Actors, Interactions, and Reactions,” *Texas International Law Journal* 41, no. 1 (2006): 67-101.

²⁴ Kinsey, *Corporate Soldiers and International Security*, 4.

²⁵ *Ibid.*, 62–63.

contract with EO, but UN efforts to contain UNITA (National Union for the Total Independence of Angola) rebels had been largely ineffective. UN peacekeeping operations under the UN Angola Verification Missions (UNAVEM I and UNAVEM II) cost about \$200 million, whereas the Angolan government paid EO roughly \$60 million,²⁶ although it is speculated that EO received additional payment in the form of natural resource concessions.²⁷

EO's successes and the UN's relative failures are possibly due not to EO's superior capabilities, but to limitations put on UN forces. UN peacekeeping forces are frequently criticized as inadequate in scenarios that require "peace-enforcing, or combat"²⁸ troops. Critics argue UN operations are counterproductive when the presence of UN peacekeeping forces that refuse to engage in combat operations allows those engaged in conflict the opportunity to recuperate, rearm, and prepare for future operations, essentially prolonging conflicts that in the absence of UN peacekeepers would sooner end with a decisive victor and an eliminated opposition.²⁹

PMSCs Influencing Governments

Alongside the industry's growing economic power are concerns about its growing political influence. PSMCs are increasingly able to influence government

²⁶ Carlos Ortiz, *Private Armed Security and Global Security* (Santa Barbara: Praeger, 2010), 82.

²⁷ Herbert M Howe, "Private security forces and African stability: the case of Executive Outcomes," *The Journal of Modern African Studies* 36, no. 2 (1998): 318.

²⁸ *Ibid.*, 309.

²⁹ Edward N Luttwak, "Give War a Chance," *Foreign Affairs* 78, no. 4 (August 1999): 47–48.

policies.³⁰ The PMI's power and abilities to influence the political environment in ways that conform to PMSCs' monetary interests increases as governments rely more on PMSC provided services.³¹ This influence is evident in the case of Military Professional Resources Incorporated's (MPRI) contract with the Equatorial Guinean government, in which MPRI was to provide training and consulting services to the country's military. MPRI is a leading US based PMSC that provides military consulting and training services all over the world. The company is staffed with former high-ranking US military officials who enjoy close ties with their former comrades.³² The US State Department initially rejected the proposed contract due to Equatorial Guinea's repressive regime and its reputation of human rights violations.³³ Further empowering such a regime was not necessarily in the USG's interests. However, after an intense two year lobbying campaign waged by MPRI, the USG eventually approved MPRI's contract with Equatorial Guinea.³⁴

Governments Misusing PMSCs

Conversely, another heated debate surrounds not PMSC exploitation of government but government exploitation of PMSCs. State utilization of PMSCs is often seen as a way to pursue unpopular objectives.³⁵ By using private

³⁰ Avant, *The Market for Force*, 128.

³¹ Maogoto, "Subcontracting Sovereignty," 149.

³² Singer, *Corporate Warriors*, 120–121.

³³ American companies providing defense services outside the US are required to obtain authorization from the State Department through the Office of Defense Trade Controls (ODTC).

³⁴ Singer, *Corporate Warriors*, 128.

³⁵ Michael A Cohen and Maria Figueroa Kupcu, "Privatizing Foreign Policy," *World Policy Journal* (Fall 2005): 42; Maogoto, "Subcontracting Sovereignty," 151.

contractors rather than military personnel, politicians dramatically lower the political costs of conflict.³⁶ Avant contends that under the current legal framework, at least in the US, PMSCs operate in an environment of low transparency and are further away from legislative oversight than the actual military, meaning they are also further away from democratic control.³⁷ Current USG regulations allow the executive branch to bypass legislative controls.³⁸ American companies providing defense services to foreign entities must get prior approval from the State Department. The State Department has to notify congress of contract authorizations only when they exceed \$50 million.³⁹ Meanwhile, PMSCs also provide governments with plausible deniability; when problems come up and mistakes are made, governments can deny any knowledge of or involvement in the situation.⁴⁰

For example, congressional limitations imposed on US military activities in support of the Columbian military under the US's Plan Columbia program have been sidestepped by way of PMSCs.⁴¹ In an incident where Dyncorp employees rescued Columbian military personnel, the equipment used to perform the rescue and the actions taken against rebels in the process indicated that Dyncorp's activities in the country went well beyond providing low-level

³⁶ Avant, *The Market for Force*, 126.

³⁷ *Ibid.*, 128.

³⁸ Maogoto, "Subcontracting Sovereignty," 149; Singer, "Ramifications for International Security," 217.

³⁹ In these cases, the State Department is not requesting congressional authorization or approval. Colonel Bruce D Grant, *U.S. Military Expertise for Sale: Private Military Consultants as a Tool of Foreign Policy*, Strategy Research Project (Carlisle Barracks: U.S. Army War College: United States Army, 1998), 11–13.

⁴⁰ Singer, "Ramifications for International Security," 218.

⁴¹ The US's Plan Columbia program aims to help quell drug production and enhance state control.

support. The company appeared to be performing functions US military personnel could not because of congressional prohibitions.⁴²

PMSCs and Military Professionalism

As the PMI grows, so does the demand for well-trained individuals. This demand, alongside the higher pay and greater flexibility offered by the private sector, threatens governments' abilities to retain their most valuable military personnel. PMSCs compete directly with governments for personnel.⁴³ Avant explains that although private security personnel may currently reflect national military standards of professionalism, this may be a temporary situation that exists at the present point of the industry's growth and development. As PMSCs fulfill tasks for governments with their former military personnel, these standards of professionalism are consistent between the private and public realms. The private sector is fulfilling a formerly public sector task with formerly public sector personnel. In time, however, if the private sector takes over the fulfillment of the aforementioned task, the military no longer performs that task and thus the probability that PMSC personnel carrying out the task are former military professionals diminishes.⁴⁴

⁴² Singer, *Corporate Warriors*, 206–209.

⁴³ Cohen and Kupcu, "Privatizing Foreign Policy," 42; Maogoto, "Subcontracting Sovereignty," 157; Singer, "Ramifications for International Security," 199.

⁴⁴ Avant, *The Market for Force*, 63.

US Government Contracting for Wartime Support – A Brief Historical Overview

The USG has utilized contractors during contingency operations to varying degrees throughout its history, depending on conflict circumstances, government policies, and military capabilities. During the Revolutionary War, the US military began contracting out some logistical support services, copying this well instituted European practice, to improve basic provisioning and has continued to utilize contractors during conflict to some extent ever since.⁴⁵ John Campbell contends the extent to which the military has outsourced wartime support follows a clear pattern: the military increasingly relies on contracted services, contractor support becomes problematic and is followed by a decreasing reliance on contracted support; the reasons the military minimized contracted support are forgotten, and the cycle begins again.⁴⁶

According to the Congressional Budget Office (CBO), “contractors typically provide services judged too menial or too specialized for government personnel.”⁴⁷ Unfortunately, the CBO admits, “historical data on numbers of contractor personnel in-theater” is “sparse and inexact.”⁴⁸ Despite this lack of concrete data, that contractors have become a larger part of US wartime operations now more than ever before is widely recognized. The CBO attributes

⁴⁵ Carey Luse et al., *An Evaluation of Contingency Contracting: Past, Present, and Future*, MBA Professional Report (Monterey: Naval Postgraduate School, 2005), 6–7.

⁴⁶ John C Campbell, “Outsourcing and the Global War on Terrorism (GWOT): Contractors on the Battlefield” (School of Advanced Military Studies, United States Army Command and General Staff College, 2005), 67–69.

⁴⁷ Congressional Budget Office, *Contractors’ Support*, 12.

⁴⁸ Ibid.

the increased extent to which the US has relied on contracted support during OIF as the product of three factors:

1. The post Cold War military drawdown
2. The emergence of a general government wide strategy to outsource
3. A lack of the military personnel necessary to maintain a large-scale occupation over several years⁴⁹

Contingency Contracts

As the USG buys goods and services from private companies, the terms of which are stipulated in a contract, such providers are referred to simply as *contractors*. Federal Acquisition Regulations (FAR) govern the contracting process. Within the FAR, State Department contracts are administered according to Department of State Acquisition Regulations (DOSAR). DOD contracts fall under Defense Federal Acquisition Regulations (DFAR), and within the DFAR are special stipulations for contingency contracting. Contracts for contingency operations such as OIF are subject to different, less restrictive rules, than contracts made under normal conditions. Contingency regulations are less stringent than regular acquisition regulations to enable faster contracting processes and flexibility in the contingency environment.

Different government agencies and departments contract for contingency support services. Each agency does so under its own specific guidelines and procedures. When the contracting officer of an agency or department enters into

⁴⁹ Ibid.

This troop shortage seems to be more related to inadequacies in the military's force structure rather than the result of a decline in overall personnel after the Cold War.

a contract, the contracting officer is responsible for oversight of that contract. Sometimes the contracting officer is not located where the contracted services are performed. For DOD administered contracts, contracting officers may delegate oversight responsibilities directly or through the Defense Contract Management Agency (DCMA). Oversight responsibilities are typically delegated to someone already onsite who can conduct evaluations for the contracting officer, as the officer retains ultimate responsibility for the contract.⁵⁰

⁵⁰ Government Accountability Office, *Military Operations - High-Level DOD Action Needed to Address Long-standing Problems with Management and Oversight of Contractors Supporting Deployed Forces*, Report to Congressional Committees (Washington DC: United States Government, 2006), 8–9.

Iraq – A Brief Historical Overview

Figure 2: Map of Iraq



Map No. 3835 Rev. 4 UNITED NATIONS
January 2004

Department of Peacekeeping Operations
Cartographic Section

Source: United Nations, "UN Iraq Map", January 2004.

A 1920 British mandate established the modern state of Iraq (see figure 2) by consolidating three former provinces of the Ottoman Empire. Iraq formally became an independent state in 1932. The British installed a Sunni Muslim ruler, Amir Faysal, to run the newly established state despite Shia Muslims constituting the majority of the population. Sunnis would continue to dominate the Iraqi political structure throughout the twentieth century.⁵¹

Iraq's population is approximately 97% Muslim, of which roughly 40% Sunni and 60% Shia, and three percent Christian.⁵² Most Iraqis are ethnically Arab, however, Iraq is also home to a significant Kurdish minority. Kurds, who are mostly Sunni Muslims, make up roughly 20-25% of Iraq's population and reside primarily in the north (see figure 3). The Kurds are culturally and linguistically distinct and have actively sought Kurdish autonomy from the centralized Iraqi government essentially ever since Iraq's central government was strong enough to exert its influence across the state. Kurdish separatist aims resulted in an armed conflict between the Kurds and the Iraqi government from 1961-1963.⁵³ In addition to ethnic and religious variations in Iraqi society, tribal affiliations are another important aspect of the country's demographics. Iraq's tribal structure was an important source of authority prior to and during Ottoman rule and has remained an influential element within Iraq's sociopolitical situation ever since.⁵⁴

⁵¹ William L Cleveland, *A History of the Modern Middle East*, Third Edition. (Boulder: Westview Press, 2004), 207–209.

⁵² United States Central Intelligence Agency, "Central Intelligence Agency The World Factbook: Iraq," *Central Intelligence Agency The World Factbook*, April 12, 2011.

⁵³ Cleveland, *A History of the Modern Middle East*, 329–330.

⁵⁴ *Ibid.*, 205.

Figure 3: Geographic Composition of Religious and Ethnic Populations in Iraq



Source: Chris Recknagel, "Iraq's Kurds Lose Political Dominance In Kirkuk" (Radio Free Europe Radio Liberty, March 21, 2010).

A 1968 coup brought the secular, albeit Sunni dominated, Iraqi Baath Party to power. The 1970s was a prosperous decade for Iraq. Living standards rose for most Iraqis, in large part due to rapidly increasing oil revenues. Saddam Hussein officially assumed the presidency of Iraq in 1979 under the Baath Party, and in 1980 Iraq invaded Iran, waging a war that would last eight long years and essentially end in a stalemate. The 1980s saw a reversal of socioeconomic gains made in the previous decade as government spending was diverted to funding Iraq's war against Iran; investments in national industries and infrastructure

were cut. Iraq's war against Iran would cost Iraq more than its oil revenues totaled during those eight years of conflict.⁵⁵

Hussein then led the country into another unsuccessful war, this time against Kuwait, in 1990. The invasion was considered an attempt to augment state revenues and absolve Iraq's outstanding debts owed to Kuwait. Iraq claimed its revenues suffered because Kuwait drove down oil prices by violating OPEC (Organization of Petroleum Exporting Countries) production quotas.⁵⁶ The United Nations Security Council subsequently passed Resolution 661, imposing sanctions that would devastate the Iraqi people. Abbas Alnasrawi summarizes the 1990 sanctions, which involved

a ban on all imports and was enforced by a naval and air blockade, an oil embargo, a freezing of Iraqi government financial assets abroad, an arms embargo, suspension of international flights, and a prohibition on financial transactions with Iraq.⁵⁷

UN mandated sanctions further degraded already neglected and war torn economic and social conditions in Iraq long after the conflict ended.

The war officially ended in 1991 after the US led a multinational effort to oust Iraqi forces from Kuwait. William Cleveland describes the attack on Iraq as “the most intensive air bombardment in military history”⁵⁸ which “destroyed or disabled virtually the entire civilian infrastructure.”⁵⁹ Following Iraq's defeat, popular anti regime uprisings by southern Shias and northern Kurds broke out

⁵⁵ Abbas Alnasrawi, “Oil, Sanctions, Debt and the Future,” *Arab Studies Quarterly* 4, no. 23 (2001): 4–5.

⁵⁶ *Ibid.*, 6–7; Cleveland, *A History of the Modern Middle East*, 479.

⁵⁷ Alnasrawi, “Oil, Sanctions, Debt and the Future,” 7.

⁵⁸ Cleveland, *A History of the Modern Middle East*, 484.

⁵⁹ *Ibid.*, 489.

almost simultaneously. The regime crushed the opposition and the US led an imposition of no fly zones over these northern and southern parts of the country to prevent further government led punishment and retribution.

Resolution 687 outlined the terms of the ceasefire. The UN determined Iraq was not in compliance with the resolution and almost all of the previously enacted sanctions were not lifted when the war ended.⁶⁰ By 1991, UN reports were already describing the living situations of normal Iraqis as nearing the point of a humanitarian crisis. It was not until five years later, despite failed attempts to negotiate with the regime, that the UN would partially lift the oil embargo through the ‘Oil for Food’ program, allowing Iraq to import much needed, although still woefully inadequate, food and supplies in exchange for oil export revenues.⁶¹

Iraq After the 2003 US-led Invasion – Political Developments

Operation Iraqi Freedom (OIF) began on March 19, 2003 when the US led a multinational effort to remove Saddam Hussein’s regime from power. Two months earlier, on January 20, 2003, the Office of Reconstruction and Humanitarian Affairs (ORHA) was established to oversee and manage US efforts in Iraq once the US effectively took over responsibility for administering the state.⁶² Prewar planning at the highest levels of authority reportedly anticipated

⁶⁰ Ibid., 485–487.

⁶¹ Alnasrawi, “Oil, Sanctions, Debt and the Future,” 9–10.

⁶² Special Inspector General for Iraq Reconstruction, *Hard Lessons - The Iraq Reconstruction Experience* (Washington DC: Special Inspector General for Iraq Reconstruction, 2009), 33–34.

ORHA was created by presidential decree through National Security Presidential Directive (NSPD 24), which established the office under the DOD’s responsibility.

quickly handing over governmental power and reconstruction responsibilities to an interim Iraqi government.⁶³ Officials at the highest levels of the decision making process, for example President George W. Bush, Secretary of State Condoleezza Rice, and Secretary of Defense Donald Rumsfeld, refused to entertain the possibility that the post invasion transfer of power and responsibility to Iraqis would not be as simple as they imagined, despite the fact that people from the tops of various USG departments voiced these concerns.⁶⁴

Former Army Lieutenant General, Jay Garner, was solicited to head the newly created ORHA. As Garner attempted to secure funds needed for initial post invasion reconstruction efforts, amounts based on even minimal projections were not immediately forthcoming. In a conversation Garner had with Rumsfeld, Rumsfeld told Garner, “if you think we’re going to spend a billion dollars of our money over there, you are sadly mistaken.”⁶⁵ It was assumed Iraq’s oil revenues would finance post war operations and reconstruction.

Garner immediately began organizing an interim Iraqi government for ORHA to transfer authority until President Bush terminated this initiative and replaced ORHA with the Coalition Provisional Authority (CPA), led by Paul Bremer. On July 13, 2003 Bremer established “a non-sovereign Iraqi advisory body: the 25-member ‘Iraqi Governing Council’ (IGC).”⁶⁶ The US returned sovereignty to a temporary Iraqi government on June 28, 2004, “officially” ending the US occupation of Iraq. As of this transition, the Iraq Reconstruction

⁶³ Ibid., 62.

⁶⁴ Ibid., 40–42.

⁶⁵ Ibid., 42.

⁶⁶ Kenneth Katzman, *Iraq: Post-Saddam Governance and Security*, CRS Report for Congress (Congressional Research Service, 2009), 9.

and Management Office (IRMO), which falls under US State Department authority, took over “reconstruction management and advising of Iraq’s ministries.”⁶⁷ Iraqis elected a temporary assembly in January of 2005, although Sunni Arabs boycotted this election. An Iraqi state constitution was drafted and approved under this government. In December 2005 elections were held for a full term government. Provincial elections were held in January of 2009.

Iraq After the 2003 US-led Invasion – Socioeconomic Conditions

Restoring essential services to the Iraqi people after the invasion was, and continues to be, a difficult and slow process. Despite the fact that major infrastructure projects were planned and paid for, basic provisions such as access to clean water and electricity were slow to reach people on a regular basis. Electricity did not reach average pre war production levels until late 2007. In 2008, over 40% of the population did not have regular access to clean water.⁶⁸ In 2009, oil production was still lower than pre-war capacity levels.⁶⁹

Iraq remains highly dependent on the exportation of oil. Oil exports account for at least 85% of government revenues.⁷⁰ Although Iraq’s oil reserves are plentiful, second only to Saudi Arabia, Iraq has a large and growing population that oil revenue alone cannot sustain. Economic diversification is essential for sustainable and equitable economic gains. Forty-three percent of

⁶⁷ Ibid., 10.

The IRMO was renamed the Iraq Transition Assistance Office (ITAO) in April 2007.

⁶⁸ Curt Tarnoff, *Iraq: Reconstruction Assistance*, CRS Report for Congress (Congressional Research Service, 2009), 11.

⁶⁹ U.S. Energy Information Administration, “Country Analysis Briefs: Iraq,” *U.S. Energy Information Administration*, September 2010, 2.

⁷⁰ Christopher M Blanchard, *Iraq: Oil and Gas Sector, Revenue Sharing, and U.S. Policy*, CRS Report for Congress (Congressional Research Service, 2010), 1.

employed Iraqis work in the public sector and almost 30% of 15-29 year old men are unemployed.⁷¹ Iraq ranks 166th out of 183 countries on The World Bank and International Financial Corporation's Ease of Doing Business index.⁷² Insecurity, an unfriendly regulatory environment, and potential political instability have thwarted not only economic diversification, but also the development of Iraq's oil industry.

Private Military and Security Companies in Iraq

There have been disagreements between and within USG departments regarding how to track federal contractors, what information to collect, whether such information should be collected to begin with, and what purpose it would serve years before contractors began supplementing, replacing, and even outnumbering US soldiers during OIF. A 1991 Department of Defense Inspector General (DOD-IG) audit recommended the DOD collect and centralize information on contracts and contractor personnel related to "emergency-essential services" for management, oversight, and planning purposes to ensure contractors' continued performance during contingencies.⁷³ The Assistant Secretary of Defense for Force Management and Personnel responded "that the ability to carry out our mission is more important than the number of

⁷¹ Inter-Agency Information and Analysis Unit and United Nations Office for the Coordination of Humanitarian Affairs, *Iraq Labour Force Analysis 2003--2008*, January 2009.

⁷² International Financial Corporation and The World Bank, "Ranking of Economies - Doing Business - World Bank Group", 2011.

⁷³ Department of Defense Office of the Inspector General, *Civilian Contractor Overseas Support During Hostilities* (Washington DC: United States Government, 1991), 10.

contracts,”⁷⁴ despite the recognized utility of such data from within the department, as the Assistant Secretary of Defense for Production and Logistics requested data on contracts and contractor personnel supporting Operation Desert Shield shortly before the DOD-IG assessment.⁷⁵

As OIF contractors received greater publicity, congressional representatives began asking questions about who they were and what they were doing. Basic data on contracts and contractors was aggregately unavailable. An electronic database was established for DOD, State Department, and United States Agency for International Development (USAID) OIF contracts and contractor information to address this absence of data.⁷⁶ Meanwhile, departmental efforts to track and count contractors in Iraq commenced.

According to the Congressional Research Service (CRS), the DOD began collecting data on contractors in late 2007. Thereafter, the DOD submitted quarterly contractor census reports to the US Congress, providing data on DOD contractor personnel in Iraq (see figure 4).⁷⁷ DOD census data derives from company submitted counts reported to regional DOD authorities throughout Iraq.⁷⁸ USAID and the State Department do not produce or submit such publically available quarterly reports; consequently, USAID and State

⁷⁴ Ibid., 11.

⁷⁵ Ibid., 12.

⁷⁶ DFARS 252.225-7040 March 2007. Data are to be entered into the Synchronized Predeployment and Operational Tracker (SPOT). The SPOT program was to be implemented by the end of 2008. An October 2010 GAO report found problems with the reliability and completeness of SPOT data. SPOT is not publically available.

⁷⁷ Mosche Schwartz and Joyprada Swain, *Department of Defense Contractors in Iraq and Afghanistan: Background and Analysis*, CRS Report for Congress (Congressional Research Service, 2011), 4.

⁷⁸ Government Accountability Office, *Contingency Contracting - DOD, State, and USAID Contracts and Contractor Personnel in Iraq and Afghanistan*, Report to Congressional Committees (Washington DC: United States Government, 2008), 25.

Department contractor personnel data is quite limited (see figure 5).

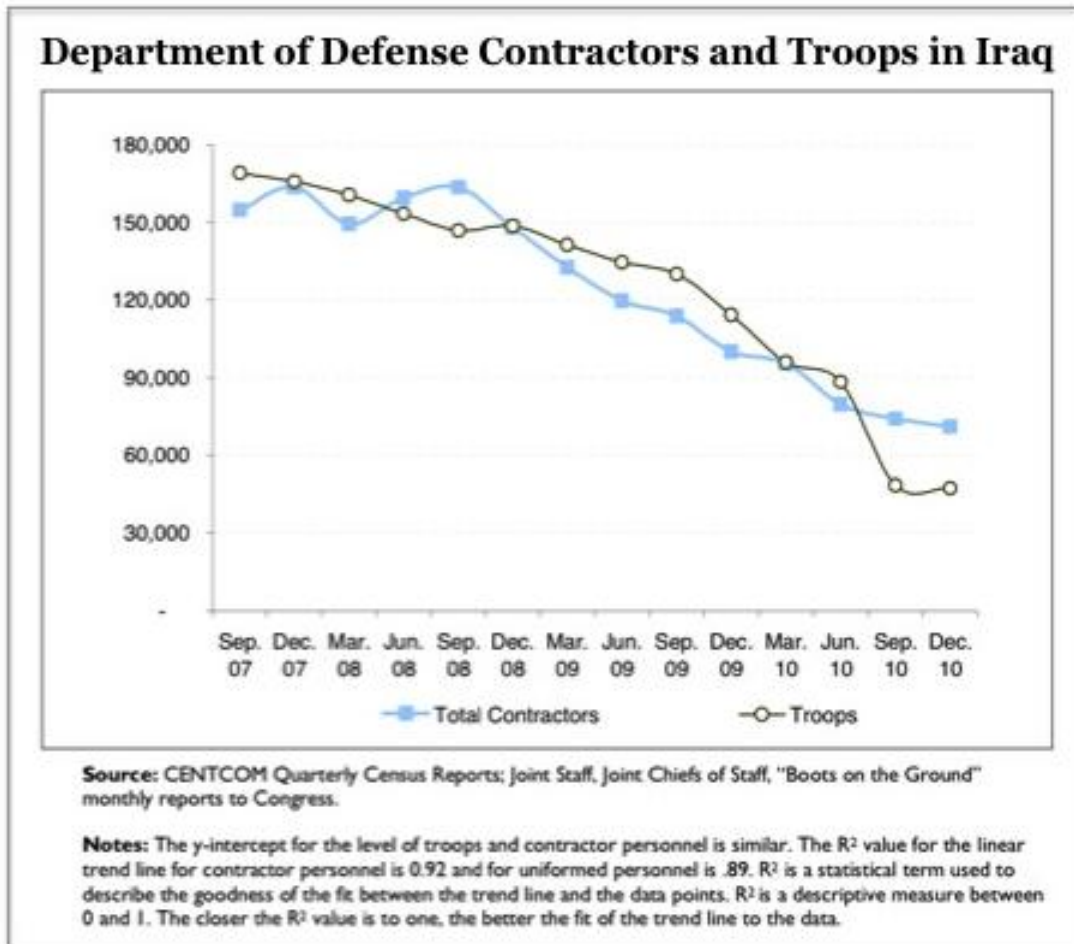
Nevertheless, the available data illustrate that reported numbers of contractor personnel in Iraq have fluctuated alongside US soldiers between 2007 and 2010, until 2011 when contractor personnel reportedly outnumber soldiers by a wider margin as the US military presence in Iraq draws down.

In October of 2010, over seven years after the war began, a Government Accountability Office (GAO) investigation into DOD, State Department, and USAID contractor data warned that “caution should be exercised when using the agency-provided data on contractor and assistance personnel to draw conclusions about either the actual number in Iraq...for any given time period or trends over time.”⁷⁹ Nevertheless, various reports have produced estimates on contractor personnel in Iraq, primarily relying on DOD, State Department, and USAID data to produce these estimates. Reports repeatedly emphasize that contractor personnel estimates are lower than actual numbers due to acknowledged inadequacies, largely government agencies’ inability to collect comprehensive data and the limited data available on subcontractor personnel.⁸⁰ Thus, the number of reported contractor personnel has been consistently close to the number of military personnel in Iraq, but actual numbers of contractor personnel at any point in time have likely been greater than illustrated in figures 4 and 5.

⁷⁹ Government Accountability Office, *Iraq and Afghanistan - DOD, State, and USAID Face Continued Challenges in Tracking Contracts, Assistance Instruments, and Associated Personnel*, Report to Congressional Committees (Washington DC: United States Government, 2010), 4.

⁸⁰ USAID and State Department estimates do not include subcontractor personnel.

Figure 4: Department of Defense Contractor and Military Personnel Estimates: September 2007 - December 2010



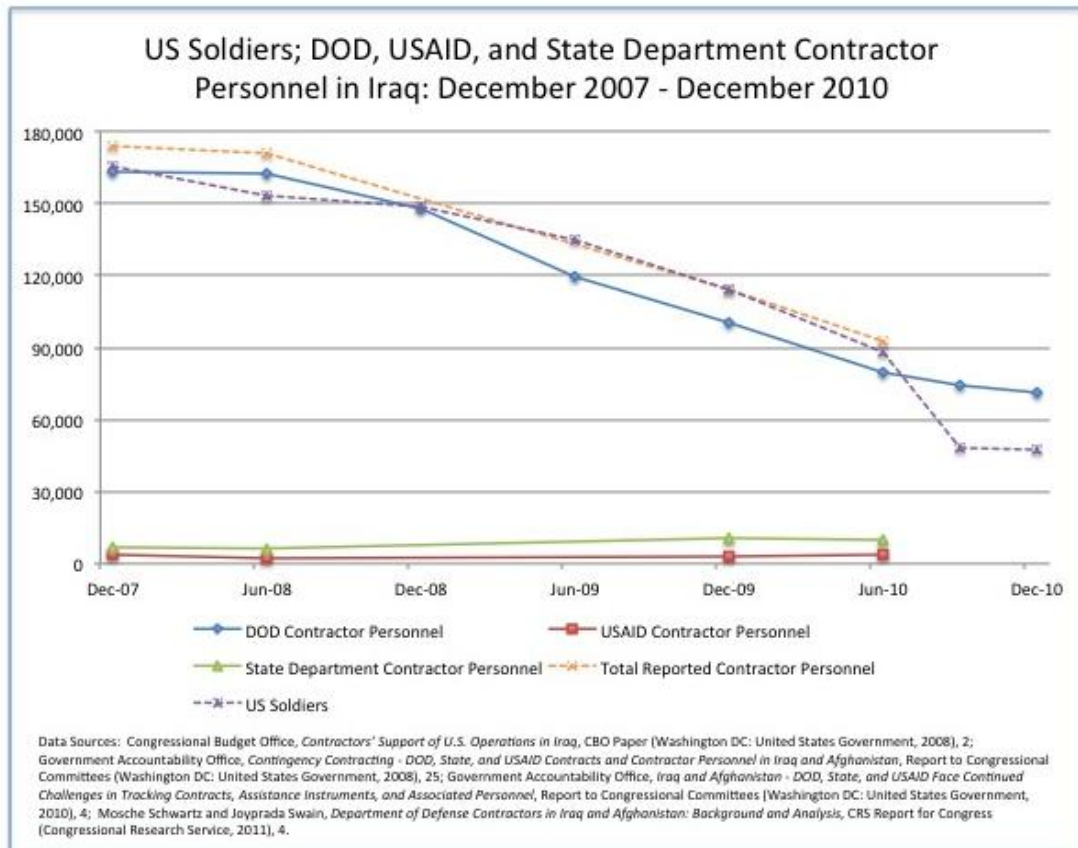
Source: Adapted from Mosche Schwartz and Joyprada Swain, *Department of Defense Contractors in Iraq and Afghanistan: Background and Analysis*, CRS Report for Congress (Congressional Research Service, 2011).

The Commission on Wartime Contracting divides contingency contracting into three categories: reconstruction, logistics, and security.⁸¹ Security services are a relatively new area of wartime outsourcing, as the military has generally provided security during previous conflicts. Security services can be divided into

⁸¹ Commission on Wartime Contracting, *At What Cost? Contingency Contracting in Iraq and Afghanistan*, Interim Report to Congress (Washington DC: United States Government, 2009), 8.

three categories: personal security, convoy security, and static security. Personal security refers to diplomatic and federal civilian personnel protection, convoy security refers to travelling motorcade protection, and static security refers to guarding facilities such as military bases and construction sites.⁸² Between March 2008 and December 2010, over 50% of DOD contractor personnel in Iraq were providing base support services (see figure 6). During the same time period, construction contractor personnel decreased from 20% to almost zero, while security contractor personnel represented roughly 5% of DOD contractor personnel in March 2008, and almost 20% in December 2010 (see figure 6).⁸³

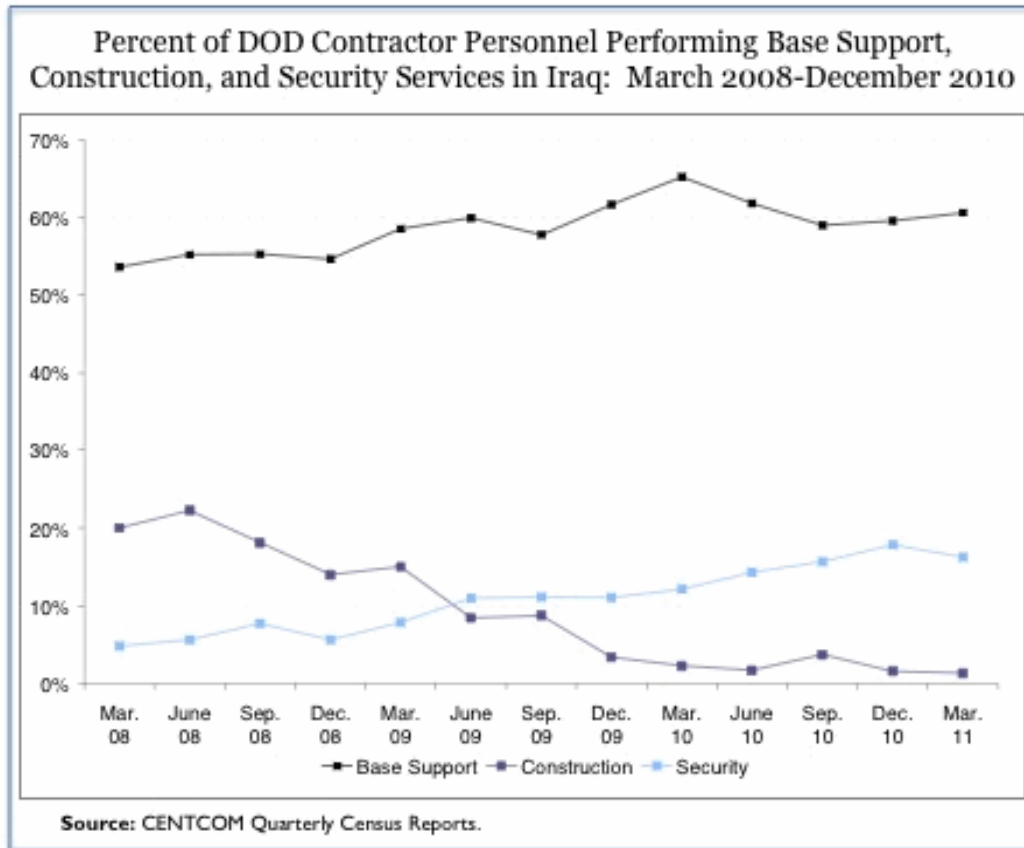
Figure 5: DOD, USAID, and State Department Contractor Personnel: December 2007 - December 2010



⁸² *Ibid.*, 60–66.

⁸³ Schwartz and Swain, *Department of Defense Contractors*, 15–16.

Figure 6: DOD Contractor Personnel by Type of Service Provided



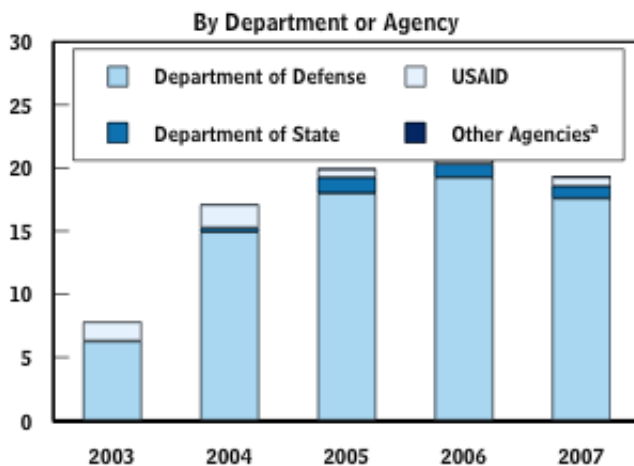
Source: Adapted from Mosche Schwartz and Joyprada Swain, *Department of Defense Contractors in Iraq and Afghanistan: Background and Analysis*, CRS Report for Congress (Congressional Research Service, 2011), 4.

Most OIF contract expenditures derived from the DOD, the State Department, and USAID, although other departments contracted for services in significantly smaller amounts. As illustrated by the CBO graph in figure 7, DOD spending on contracts has been significantly higher than that of the State Department or USAID.

Figure 7: Contract Spending 2003-2007

The U.S. Government's Obligations for Contracts Performed in the Iraq Theater, 2003 to 2007

(Billions of dollars)



Source: Congressional Budget Office based on data from the Federal Procurement Data System—Next Generation and the Joint Contracting Command—Iraq/Afghanistan.

Notes: For this study, the Congressional Budget Office considers the following countries to be part of the Iraq theater: Iraq, Bahrain, Jordan, Kuwait, Oman, Qatar, Saudi Arabia, Turkey, and the United Arab Emirates.

USAID = U.S. Agency for International Development.

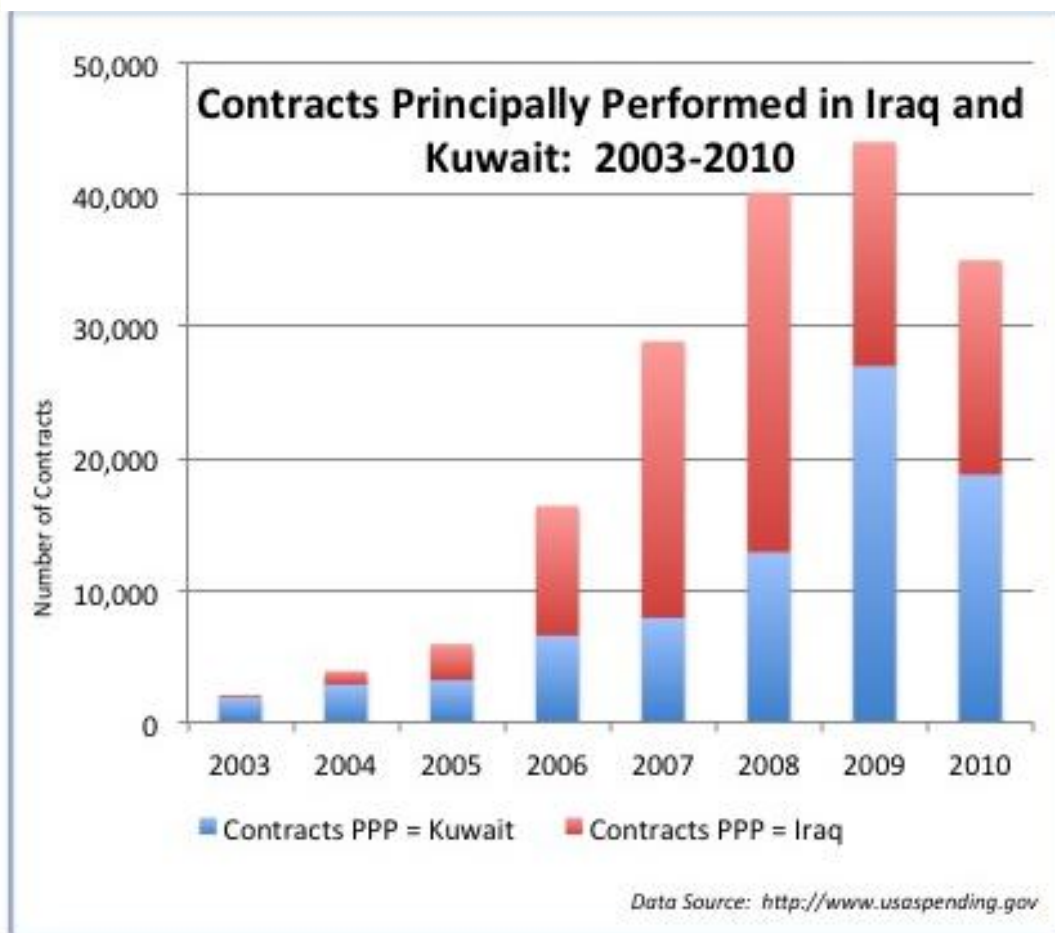
a. Includes the Departments of Agriculture, Commerce, Health and Human Services, the Interior, Justice, Transportation, and the Treasury, as well as the Broadcasting Board of Governors and the General Services Administration. Obligations of other agencies totaled \$113 million or less in each year.

Source: Congressional Budget Office, *Contractors' Support of U.S. Operations in Iraq*, CBO Paper (Washington DC: United States Government, 2008), 3.

OIF support services were sometimes performed in countries nearby rather than in Iraq itself. Thus, in addition to contracts designated as principally performed in Iraq, contracts principally performed in Kuwait, Turkey, Bahrain,

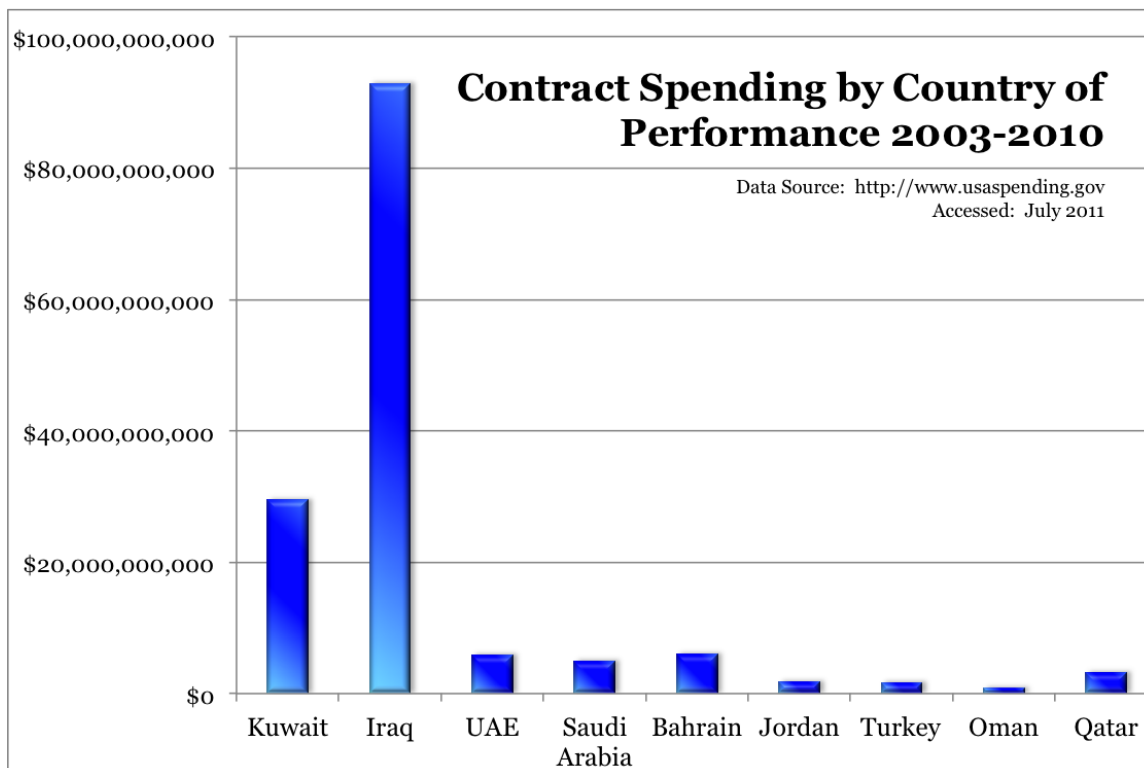
Jordan, Oman, Saudi Arabia, Qatar, and the United Arab Emirates were often contracts for OIF support (see figure 7). These countries are collectively referred to as the Iraq *theater of operations*.⁸⁴ OIF support operations in Kuwait were much greater and more extensive than in the other countries in the Iraq theater of operations. Kuwait has been a central transit point, as troops and supplies often go through Kuwait on their way to Iraq. As illustrated in figure 8, in some years the total number of contracts performed in Kuwait actually outnumbered contracts performed in Iraq.

Figure 8: *Contracts Principally Performed in Iraq and Kuwait: 2003-2010*



⁸⁴ Congressional Budget Office, *Contractors' Support*, 3.

Figure 9: Contract Spending by Country of Performance 2003-2010



Both the CRS and CBO estimate contracted support accounts for at least 20% of OIF spending.⁸⁵ According to the Federal Procurement Data System—Next Generation (FPDS-NG), contracts principally performed in Iraq and Kuwait from 2003-2010 totaled \$122 billion (see figure 8).⁸⁶ Contracts principally

⁸⁵ Ibid., 2–3; Schwartz and Swain, *Department of Defense Contractors*, 17.

The CBO estimate refers to overall USG OIF spending, whereas the CRS estimate refers specifically to DOD spending.

⁸⁶ Data accessed in July 2011. FARs require USG departments to enter unclassified federal procurement data into the FPDS-NG. FPDS-NG data is continually updated with past information, so different access dates may yield different results. Contract data has been and remains unreliable and incomplete. DOD data has been repeatedly cited as not encompassing all unclassified contracts and individual contract records as incomplete. Different sources of data on contractors and contracts often conflict.

Congressional Budget Office, *Contractors' Support*, 5; Government Accountability Office, *Iraq and Afghanistan - DOD, State, and USAID Face Continued Challenges*, 20.

performed throughout the Iraq theater of operations between 2003 and 2010 totaled \$147 billion (see figure 9).⁸⁷

GAO, CBO, and other departmental cost estimates of OIF contracting lack desirable cost break downs, however, this data is presumably more accurate than FDSP-NG data because agencies acquire supplemental data directly from the DOD, State Department, and USAID, including data on classified contracting operations purposively omitted from the FDSP-NG database. The CBO estimates \$85 billion in contract spending from 2003-2007 for services performed in the Iraq theater of operations.

Congressional Budget Office, *Contractors' Support*, 2-3.

According to the CRS, DOD contracted OIF support totaled nearly \$113 billion between 2005 and 2010.

Schwartz and Swain, *Department of Defense Contractors*, 17.

⁸⁷ <http://www.usaspending.gov>. Accessed July 2011.

Chapter 3

US Outsourcing During Operation Iraqi Freedom:

The Costs

As of mid-2007 Halliburton subsidiary Kellogg, Brown, & Root's (KBR) OIF support contracts with the USG totaled roughly \$20 billion. Industry expert Peter Singer says that after converting the costs of previous wars into current dollars, "the U.S. government paid Halliburton about \$7 billion *more* than it cost the United States to fight the American Revolution, the war of 1812, the Mexican-American War, and the Spanish American War *combined*."⁸⁸ In relation to contemporary US engagements, KBR (as of mid-2007) had already made three times more than the 1991 Gulf War cost the United States in its totality.⁸⁹

The fact that more money has been paid to one company than has been spent on several previous wars combined does not in and of itself indicate whether the US is paying more for services provided by contractors instead of military personnel. This chapter will analyze whether contracting for wartime services in Iraq has cost less than if government personnel provided such services. Essential elements of successful outsourcing identified in the literature include

⁸⁸ Singer, *Corporate Warriors*, 247.

⁸⁹ *Ibid.*

competition and contract management.⁹⁰ These areas are examined in the context of USG OIF outsourcing. Few studies compare the costs of contractor and military provided services in Iraq. Those that have been conducted illustrate the complexity involved in attempting to make such comparisons adequately and accurately.

Why Outsource?

Privatization, broadly defined, refers to “any policy directed at reducing governmental involvement in economic and social life.”⁹¹ The CRS outlines the following types of privatization: “divestiture/load-shedding, contracting for goods, contracting for services (outsourcing), vouchers, quasi-governmental entities (including government-owned-contractor-operated facilities (GOCO)), third-party financing, grants to private parties, prize competitions, and the use of volunteers.”⁹² In this context, outsourcing is a subdivision of privatization.

Outsourcing occurs when businesses or governments hire outside service providers to perform functions formerly performed by in-house personnel. Only the government privatizes, governments and businesses outsource.⁹³ Beyond this basic definition, Paul Jensen and Robin Stonecash find that “recent work comes

⁹⁰ Peter R. Embleton and Phillip C. Wright, “A practical guide to successful outsourcing,” *Empowerment in Organizations* 6, no. 3 (1998): 100–102; Jonas Prager, “Contracting Out Government Services: Lessons from the Private Sector,” *Public Administration Review* 54, no. 2 (April 1994): 178–179.

⁹¹ Daphne Barak-Erez, “The privatization continuum,” in *Private Security, Public Order*, ed. Simon Chesterman and Angelina Fisher (New York: Oxford University Press, 2009), 72.

⁹² Kevin R Kosar, *Privatization and the Federal Government: An Introduction*, CRS Report for Congress (Congressional Research Service, 2006), 12–13.

⁹³ Krishnan, *War as Business*, 40.

to the conclusion that no generalizable theory of outsourcing exists.”⁹⁴ Decisions of what and how to outsource are not predetermined; specialized strategies must be devised and implemented for outsourcing efforts to be successful.⁹⁵

Companies often outsource when doing so would presumably cost less than in-house performance. However, no standard methods for empirically measuring the effects of outsourcing, financial or otherwise, exist. Bin Jiang and Amer Qureshi review the research on outsourcing outcomes and find that most studies rely on perceptions and self-reports rather than concrete financial data analyses to assess the effectiveness of outsourcing initiatives.⁹⁶ The financial impacts of outsourcing have not been assessed systematically or comprehensively.

Government outsourcing is a tool used in pursuing a “better allocation of state resources.”⁹⁷ Non-inherently governmental services can be contracted out so government personnel can focus on fulfilling essential functions. For example, the Australian Industry Commission asserts outsourcing public sector IT services resulted in “improvements in quality of service delivery arising from greater specialization through the outsourcing of particular non-core activities and from the monitoring of service providers.”⁹⁸ Outsourcing may be strategically pursued, but it may also stem from necessity when a government does not possess or cannot otherwise obtain the skills or abilities needed to perform certain functions.

⁹⁴ Paul H. Jensen and Robin E. Stonecash, “Incentives and the Efficiency of Public Sector-outsourcing Contracts,” *Journal of Economic Surveys* 19, no. 5 (December 2005): 768.

⁹⁵ Embleton and Wright, “A practical guide,” 104.

⁹⁶ Bin Jiang and Amer Qureshi, “Research on outsourcing results: current literature and future opportunities,” *Management Decision* 44, no. 1 (2006): 44–46.

⁹⁷ Barak-Erez, “The privatization continuum,” 110.

⁹⁸ Andrew Kakabadse and Nada Kakabadse, “Outsourcing in the Public Services: A Comparative Analysis of Practice, Capability and Impact,” *Public Administration and Development* 21 (2001): 405.

The private sector is presumably more efficient than the public sector because private sector enterprises are motivated by profit.⁹⁹ The private sector can provide goods and services of better quality, at lower costs, or in a speedier fashion because private sector actors strive for efficiency and innovation to maximize profits and undercut competitors. However, businesses do not necessarily emphasize efficiency, nor do they necessarily deliver it. This is not to say public sector efficiency rivals that of the private sector, rather, “many private sector enterprises are as inefficient as are their government counterparts.”¹⁰⁰ Jonas Prager suggests that with government functions, “the issue is not inherent inefficiency as much as a lack of political will”¹⁰¹ to prioritize and promote efficiency.

Contemporary Military Outsourcing – The Strategy

As private sector outsourcing increased in popularity, the USG noticed and attempted to apply outsourcing techniques within its organization, the DOD included, in order to cut costs, streamline government operations, and minimize bureaucratic inefficiencies. The DOD’s outsourcing initiative was termed a Revolution in Business Affairs (RBA); a military transformation through the adoption of successful business practices.¹⁰² Military support services have been outsourced purposively to lower costs, increase efficiency, and enhance capabilities.

⁹⁹ Prager, “Contracting Out Government Services,” 179.

¹⁰⁰ *Ibid.*, 180.

¹⁰¹ *Ibid.*

¹⁰² Krishnan, *War as Business*, 44–46.

As the DOD investigated outsourcing, the private sector promoted it. Throughout the 1990s and still today the industry association Business Executives for National Security (BENS) has advocated defense privatization and outsourcing. The Defense Science Board (DSB) task force on outsourcing and privatization pronounced overstated savings estimates as it promoted DOD outsourcing in the mid-1990s.¹⁰³ In one analysis, the DSB estimated a potential \$6 billion in annual savings from outsourcing logistical support for DOD facilities located in the US. The Office of the Secretary of Defense's Program Analysis and Evaluation department analyzed this estimate and concluded it was overstated by \$4 billion. In addition, the GAO contended the DSB estimate assumed an outsourcing environment of intense competition in areas where "competitive markets may not... exist."¹⁰⁴

Competitive Contracting

Studies show cost savings derive primarily from competition, rather than from outsourcing per se.¹⁰⁵ This is because savings occur when private and public entities compete, while neither private nor public providers have been systematically associated with greater savings.¹⁰⁶ Reflecting this assessment, a 1996 DOD publication, *Improving the Combat Edge through Outsourcing*,

¹⁰³ Ann R. Markusen, "The Case Against Privatizing National Security," *Governance: An International Journal of Policy, Administration, and Institutions* 16, no. 4 (October 2003): 486.

¹⁰⁴ General Accounting Office, *Outsourcing DOD Logistics - Savings Achievable But Defense Science Board's Projections Are Overstated*, Report to Congressional Requesters (Washington DC: United States Government, 1997), 4.

¹⁰⁵ Jensen and Stonecash, "Incentives and the Efficiency of Public Sector," 771-773; Prager, "Contracting Out Government Services," 178.

¹⁰⁶ Jensen and Stonecash, "Incentives and the Efficiency of Public Sector," 772.

contends services should be outsourced “only when the private sector can improve performance or lower costs in the context of long term competition.”¹⁰⁷ The report emphasizes that competition amongst suppliers is the key to maximizing cost savings and promoting innovation.

Despite the government’s apparent comprehension of competition’s criticality on paper, OIF outsourcing has illustrated the government’s failure to prioritize it in practice. Preexisting departmental policies, as well as failures in implementing others, specific wartime directives, confidentiality requirements, and perceived emergencies limited and inhibited competitive contracting.

The USG limited its abilities to maximize quality and minimize costs when contracting for OIF support by restricting competition and precluding potential providers. As stipulated by the Foreign Assistance Act, USAID contracts exclusively with American companies, the only exception being when American companies alone cannot competitively provide needed goods and services. As USAID lawyer Marburg-Goodman explains, “this rule can result in inferior or more expensive goods or services being procured than would be the case if worldwide sources were solicited.”¹⁰⁸

When the US Congress approved the \$18.4 billion Iraq Relief and Reconstruction Fund 2 (IRRF2) in November 2003, it stipulated IRRF2 funded contracts be awarded through competitive procedures. This provision was largely in response to Iraq Relief and Reconstruction Fund 1 (IRRF1) spending. Many

¹⁰⁷ Department of Defense, *Improving the Combat Edge Through Outsourcing* (Washington DC: United States Government, 1996), 4.

¹⁰⁸ Jeffrey Marburg-Goodman, “USAID’s Iraq Procurement Contracts: Insider’s View,” *American Bar Association - Procurement Lawyer* 39, no. 1 (Fall 2003): 12.

IRRF1 funded contracts were awarded without adequately competitive bidding processes. Shortly thereafter, in December 2003, Deputy Secretary of Defense Paul Wolfowitz modified the congressionally mandated provision when he declared prime contracts would be awarded to companies based in coalition member states, Iraq, or the US, as necessitated by US security interests.¹⁰⁹ Nevertheless, companies based in other countries were completely eligible for subcontracts.¹¹⁰ This justification, which essentially banned companies from roughly 130 countries, made little sense in theory and contradicted its stated purpose in practice. As has been widely reported, the USG has little effective knowledge or oversight of subcontractors.¹¹¹ Thus, if such companies were potential security threats it would have made more sense to employ them under prime contracts so the USG would have greater visibility into their operations and activities.

Urgency at times necessitates non-competitive contracting, particularly during a conflict's inception. Competitive practices and procedures should be transitioned in later to minimize costs, yet the Commission on Wartime Contracting says this transition was slow and inadequate throughout OIF.¹¹² The US Army's Logistics Civil Augmentation Program III (LOGCAP III) contract

¹⁰⁹ Special Inspector General for Iraq Reconstruction, *Iraq Reconstruction - Lessons in Contracting and Procurement* (Washington DC, 2006), 42-43.

The GAO says the ability to make such a provision was beyond the scope of Wolfowitz's authority.

¹¹⁰ Valerie Bailey Grasso, *Iraq: Frequently Asked Questions About Contracting*, CRS Report for Congress (Washington DC: Congressional Research Service, 2005), 3.

¹¹¹ Commission on Wartime Contracting, *Subcontracting: Who's Minding the Store?* (Washington DC, 2010), 2.

¹¹² Commission on Wartime Contracting, *At what risk? Correcting over-reliance on contractors in contingency operations*, Second Interim Report for Congress (Arlington: United States Government, 2011), 42.

exemplifies the failure to replace expensive emergency contracts with more cost efficient contracts awarded through competitive procedures. The army's Logistics Civil Augmentation Program (LOGCAP) is designed to provide primarily base support services to troops during military mobilizations.¹¹³ Originally intended to support military forces during the onset of contingency operations, services have been provided under the LOGCAP III contract, the largest OIF contract, throughout OIF's duration.

Contract Management

Outsourcing relinquishes control to the service provider. Effective contract management minimizes this loss of control. Contract monitoring requires resources and may be expensive, however, "efficient monitoring... pays for itself by preventing overcharges and poor quality performance in the first place, by recouping inappropriate outlays, and by disallowing payment for inadequate performance."¹¹⁴ Monitoring refers to both technical and financial monitoring (see figure 10). Assuring the quality of contracted goods and services is particularly crucial, "because of the contractors incentive to save money"¹¹⁵ and increase profits by delivering goods or services of lesser quality than contractually stipulated.

¹¹³ Valerie Bailey Grasso, *Defense Logistical Support Contracts in Iraq and Afghanistan: Issues for Congress*, CRS Report for Congress (Congressional Research Service, September 20, 2010), 6–8.

The first LOGCAP contract (LOGCAP I) was awarded in 1992, LOGCAP II was awarded in 1997, and LOGCAP III was awarded in 2001. LOGCAP III was exclusively awarded to Halliburton-KBR reportedly under competitive procedures.

¹¹⁴ Prager, "Contracting Out Government Services," 182.

¹¹⁵ Embleton and Wright, "A practical guide," 99.

Figure 10: Elements of Department of Defense Contract Management

Elements of Department of Defense Contract Management	
<p>Customers:</p> <ul style="list-style-type: none"> • Develop requirements. • Write statements of work. • Obtain funding. • Provide contracting officer's representatives to monitor contract performance. 	<p>Contracting officer:</p> <ul style="list-style-type: none"> • Interpret the contract. • Obligate the government for work under the contract. • Delegate contract management responsibilities to deployed personnel who monitor contractor performance. • Ensure that the contractor corrects cited deficiencies.
<p>Defense Contract Management Agency:</p> <ul style="list-style-type: none"> • Appoint contracting officer's representatives for LOGCAP. • Review and approve purchase requisitions. • Monitor government property. • Evaluate quality assurance. • Monitor contract performance. • Evaluate technical performance. 	<p>Contracting officer's representative:</p> <ul style="list-style-type: none"> • Provide daily contract oversight. • Evaluate quality assurance. • Monitor contract performance. • Evaluate technical performance.
<p><small>Source: GAO analysis of DOD data.</small></p>	

Source: Adapted from Government Accountability Office, *Military Operations – High-Level DOD Action Needed to Address Long-standing problems with Management and Oversight of Contractors Supporting Deployed Forces*, Report to Congressional Committees (Washington DC: United States Government, 2006), 10.

Inadequate and inefficient contract management plagued USG OIF outsourcing efforts. Prager contends that contract management “is inefficient for the very same reasons” as “general cost-inefficient government production.”¹¹⁶ When outsourcing for OIF support, as with government outsourcing in general, a primary question for analysis asks, “will contracting out prove even more costly

¹¹⁶ Prager, “Contracting Out Government Services,” 181.

than inefficient government provision of specific services?”¹¹⁷ Personnel shortages, a poor institutional framework, poor interagency coordination, relevantly unskilled personnel, high turnover rates, security concerns, and widespread apathy towards contract management have significantly impeded the USG’s abilities to manage OIF contracts successfully.

Personnel Shortages

Personnel shortages pervaded DOD, State Department, and USAID administered contracts at all phases of the contracting process.¹¹⁸ These shortages created serious delays in the execution of reconstruction projects. The government wanted projects to start right away; contracts were awarded, but task orders to perform specific services developed slowly.¹¹⁹ Contractors sent personnel to Iraq as contractually stipulated, however, many contracts did not outline the work to be performed with specificity and required government directives before commencement. Contractors charged overhead fees for contractor personnel while waiting for these directives, which were delivered later than originally anticipated.¹²⁰

In addition to personnel shortages, government personnel were often assigned contractor performance monitoring in addition to their already full

¹¹⁷ Ibid., 180.

¹¹⁸ Commission on Army Acquisition and Program Management in Expeditionary Operations, *Urgent Reform Required: Army Expeditionary Contracting*, October 31, 2007, 4.

¹¹⁹ Task orders are effectively smaller contracts subsumed by an initial overarching contract. Smaller is a relative term; in many cases task orders total tens or hundreds of millions of dollars.

Grasso, “Defense Logistical Support Contracts in Iraq and Afghanistan: Issues for Congress,” 7.

¹²⁰ Special Inspector General for Iraq Reconstruction, *Hard Lessons*, 175.

workloads. Those responsible for oversight were rarely qualified to oversee projects, oftentimes inexperienced and without knowledge of the project sector or relevant technical expertise.¹²¹ US Army Intelligence and Security Command officials reported that personnel overseeing translators in Iraq did not speak Arabic, and there were several reported incidences of inaccurate translations by contractors.¹²² Contract monitors must have relevant knowledge and expertise to properly evaluate contractor performance and ensure the quality of contractor provided services.

The short-term deployments of government personnel responsible for writing, awarding, and overseeing contracts contributed to problems and delays on the ground. Some deployments were as short as one or two months, while many lasted only six.¹²³ By the time personnel would get situated and familiarized with operational procedures, the institutional situation, contractors, and contracts, it would be time for them to return to the US and their knowledge of the situation would be lost. For example, a DCMA employee overseeing contractor provided services at 27 different locations in Iraq did not physically visit all 27 sites during his six-month deployment in Iraq.¹²⁴ Contracting officers are the primary officials responsible for contract management and oversight on the ground. According to Parsons Delaware Incorporated, the contracting officer

¹²¹ Commission on Wartime Contracting, *At What Cost?*, 7–13.

¹²² Government Accountability Office, *Military Operations - High-Level DOD Action Needed*, 36.

¹²³ Special Inspector General for Iraq Reconstruction, *Iraq Reconstruction: Lessons in Human Capital Management*, Lessons Learned (Special Inspector General for Iraq Reconstruction, January 2006), 38–39.

¹²⁴ Government Accountability Office, *Military Operations - High-Level DOD Action Needed*, 4.

assigned to one of its OIF contracts changed 17 times in two years.¹²⁵ Short-term deployments led to the loss of institutional knowledge and discontinuity in contract management and oversight in Iraq.

High-level officials involved in OIF contracting were typically unconcerned with cost. Illustrating this point, the Commission on Wartime Contracting pronounces:

For many senior officials, contractors appear to be a “free” source of labor with no direct impact on their budgets. Funded out of what they perceive to be unconstrained overseas contingency-operation budgets, many senior officials pay scant attention to articulating specific support requirements, negotiating contract terms, and managing contractor performance.¹²⁶

Although outsourcing has been deliberately pursued to lower costs, officials involved in OIF contracting often failed to prioritize essential outsourcing elements that ensure contracted services are obtained for the best value or lowest cost.

Government Provision versus Contractor Provision: The Costs

Empirically assessing the effectiveness of outsourcing is difficult, as innumerable factors potentially affect costs. Despite the challenges, it is imperative to analyze whether outsourcing proves cost efficient, as DOD outsourcing was initiated specifically to lower expenditures. Necessary and appropriate cost data is often unavailable for public sector activities, further

¹²⁵ Special Inspector General for Iraq Reconstruction, *Key Recurring Management Issues Identified in Audits of Iraq Reconstruction Efforts* (Arlington: Special Inspector General for Iraq Reconstruction, July 27, 2008), 13.

¹²⁶ Commission on Wartime Contracting, *At what risk?*, 22.

problematizing before and after assessments of government outsourcing initiatives. According to Jensen and Stonecash, most studies on government outsourcing conclude outsourcing yields cost savings. However, actual savings from outsourcing the provision of public services to the private sector typically prove significantly less substantial than originally anticipated.¹²⁷

DOD outsourcing initiatives, both proposed and implemented, involve costs the department has not acknowledged or included in its estimates. These include “the costs to conduct the study, personnel transition costs, contract administration costs, and scope of work changes.”¹²⁸ To date, the DOD has been unable to accurately document “actual program costs and program changes,”¹²⁹ essential elements in determining whether savings actually result. Meanwhile, DOD “leadership continues to make budgetary decisions based on inaccurate and inflated cost savings estimates.”¹³⁰ Reflecting this assessment, two of the only publically available government produced OIF outsourcing cost comparisons do not account for contract management costs.

Security Services – The Congressional Budget Office’s Cost Comparison

In 2008 the Congressional Budget Office (CBO) compared the costs of PSC provided and military provided diplomatic security services to State Department

¹²⁷ Jensen and Stonecash, “Incentives and the Efficiency of Public Sector,” 767–768.

¹²⁸ Lt Col Warren M Anderson, LTC John J McGuiness, and CDR John S Spicer, *From Chaos to Clarity: How Current Cost-Based Strategies Are Undermining the Department of Defense*, Report of the Military Research Fellows (Fort Belvoir: Defense Acquisition University, 2001 2000), 4–26.

“The study” refers to costs associated with identifying and competing functions for outsourcing according to government and DOD guidelines.

¹²⁹ *Ibid.*, 4–28.

¹³⁰ *Ibid.*

personnel in Iraq. The CBO explains, “the Army’s goal is to have two units at home station (that is, in the rotation base) for each unit deployed overseas. The time at home lets units recuperate from their deployment, reconstitute personnel and equipment, and train for their next deployment.”¹³¹ The CBO compared costs based on the army’s goal ratio (2 to 1) and the actual ratio (1.2 to 1) at the time of its assessment. Outsourcing security services costs about \$10 million more than providing security in-house when calculated under a rotation base ratio of 1.2 to 1. Outsourcing security services costs about \$10 million less than military provided security under the alternative scenario based on the army’s goal ratio.¹³²

The CBO’s comparison does not account for potential long-term savings in its analysis. Its estimate does not include the long-term benefits soldiers receive, such as free or low cost healthcare provided by the Department of Veterans Affairs (DVA) after their service ends. Also missing from the analysis are payroll savings that accrue after the war, as the contract can simply expire without renewal, whereas the increase in soldiers would result in greater expenses during peacetime since military personnel remain on the payroll when conflict ends.¹³³

On the other hand, there are also potential costs omitted from the comparison. On the ground, military commanders do not have the authority to direct contractor activities except as specified in the contract, whereas commanders can redirect military and civilian personnel activities according to changing needs and conditions on the ground. Thus, soldiers and DOD civilian

¹³¹ Congressional Budget Office, *Contractors’ Support*, 17.

¹³² *Ibid.*, 19–20.

¹³³ *Ibid.*, 16–17.

employees can be reemployed and put to more productive uses, whereas contractors may remain idle or unnecessarily engaged when conditions change and their contracted services are no longer needed.¹³⁴

The CBO's assessment does not include transaction costs, which include costs associated with the bidding and award process, creating the contract, contract management and oversight, and reviewing and processing documents for payment. Rather than reduce expenditures and improve efficiency, the CBO itself says using contractors to fulfill "functions for which there are extensive costs involved in setting up, monitoring, and enforcing contracts could make outsourcing a poor option,"¹³⁵ increasing costs and decreasing efficiency. Yet, the CBO fails to include any of these costs in its estimate, thus the extent of these relevant costs in this case is unknown.

Security Services – The Government Accountability Office's Cost Comparison

The Government Accountability Office (GAO) compared the costs of PSC provided and State Department provided security services under one contract and four task orders (see figure 11). The GAO concluded contractors would cost less than State Department personnel under three of the four task orders for regional security services. However, it would be summarily cheaper if the State Department provided regional security because the one scenario in which the

¹³⁴ Ibid., 19–20.

¹³⁵ Congressional Budget Office, *Logistics Support for Deployed Military Forces*, A CBO Study (Washington DC: The Congress of the United States, 2005), 25.

State Department costs less outweighs the cost differentials of the other three task orders combined by \$53.7 million (see figure 11).¹³⁶

Estimated State Department expenses include the costs of maintaining a rotational structure wherein for every State Department employee in Iraq, another is stationed in the US. The GAO does not include the costs of recruiting and training new personnel, which would be necessary if such a replacement were implemented at the time of the GAO's comparison because the State Department did not employ enough people to fulfill those functions.¹³⁷ However, personnel stationed in the US do not necessarily constitute added costs with no benefits. While stationed in the US, such personnel fulfill other functions for the USG, functions that in their absence might be contracted out or fulfilled by other personnel. Thus, although these expenses constitute higher costs in this scenario, they may correspond with lower costs in other areas of expenditures. This is not addressed in the GAO's report. Nevertheless, maintaining the personnel necessary to sustain a deployment rotation involves costs contractors do not incur. Additionally, the GAO does not include contract management costs in its comparison because the State Department could not provide the relevant cost estimations.¹³⁸

¹³⁶ Government Accountability Office, *Warfighter Support: A Cost Comparison of Using State Department Employees versus Contractors for Security Services in Iraq* (Washington DC: United States Government Accountability Office, 2010), 6.

¹³⁷ *Ibid.*, 5.

¹³⁸ *Ibid.*, 6.

Figure 11: GAO Cost Comparison

GAO Cost Comparison: Contractors versus State Department (\$ in millions)						
Contract / task orders	Number of contractor personnel	Contractor* annual cost	State Department annual estimated cost ^b (in fiscal year 2008 dollars)			Cost difference
			Deployed	Stateside	Total	
Baghdad Embassy Static Security	1,982	\$77.6	\$681.9	\$176.5	\$858.4	(\$785.1)
Baghdad Region Personal Protective Services Task Order	553	\$380.4	\$190.3	\$49.2	\$239.5	\$140.9
Basrah Region Personal Protective Services Task Order	243	\$61.6	\$83.6	\$21.6	\$105.2	(\$43.7)
Al-Hillah Region Personal Protective Services Task Order	259	\$71.9	\$89.1	\$23.1	\$112.2	(\$40.3)
Erbil Region Personal Protective Services Task Order	128	\$52.1	\$44.0	\$11.4	\$55.4	(\$3.3)

Source: GAO analysis of State Department data.
^aThe contractor annual costs have been converted into fiscal year 2008 dollars.
^bThe costs to recruit, hire, and train new employees are not included because the State Department would incur costs to acquire new employees before it would incur the additional estimated annual costs in this table.

Source: Adapted from Government Accountability Office, *Warfighter Support: A Cost Comparison of Using State Department Employees versus Contractors for Security Services in Iraq* (Washington DC: United States Government Accountability Office, 2010), 6.

The GAO estimates State Department provided security services would cost \$785 million more than outsourcing these services to PSCs under the Baghdad Embassy Static Security Contract.¹³⁹ The GAO's comparison clearly delineates cost variations along labor force lines. When contractor personnel largely consist of third country and host country nationals, as is the case for the Baghdad Embassy Static Security Contract, in which 89% of personnel are not US citizens, savings are substantially greater than the scenarios in which contractor personnel are predominately US citizens. The one task order the GAO estimates

¹³⁹ Ibid., 2.

The DOD was not included in the comparison because the DOD could not estimate the costs if DOD personnel fulfilled the security services in the study.

in-house provision would cost less than outsourcing is the only task order in which 100% of PSC personnel are US citizens (see figures 11 and 12).¹⁴⁰

Figure 12: GAO Cost Comparison: Contractor Labor Force by Nationality

Contractor Labor Force Nationalities							
Contract/task orders	Total contract / task order personnel	U.S. citizens		Third-country nationals		Local nationals	
		Number	Percent	Number	Percent	Number	Percent
Baghdad Embassy Static Security	1,982	166	8%	1,623	82%	148	7%
Baghdad Region Personal Protective Services Task Order	553	553	100%	0	0	0	0
Basrah Region Personal Protective Services Task Order	243	116	48%	127	52%	0	0
Al-Hillah Region Personal Protective Services Task Order	259	118	46%	141	54%	0	0
Erbil Region Personal Protective Services Task Order	128	102	80%	18	14%	8	6%
Total	3,165	1,055	33%	1,909	60%	156	5%

Source: GAO analysis of State Department data.

Source: Adapted from Government Accountability Office, *Warfighter Support: A Cost Comparison of Using State Department Employees versus Contractors for Security Services in Iraq* (Washington DC: United States Government Accountability Office, 2010), 6.

*Note: 45 contractor personnel are unaccounted for in the Baghdad Embassy Static Security nationality estimates.

Labor – Compensation Savings

The flexibility involved in outsourcing contributes to cost savings, as it is expensive to train, maintain, and mobilize large numbers of military personnel that are unnecessary during times of relative peace. Many PMSC personnel are former military servicemen. Critics argue this is an abuse of taxpayer money since taxpayers fund the military training PMSCs later capitalize on. Even so, the

¹⁴⁰ Ibid., 5–10.

GAO comparisons calculate State Department costs with the assumption of an all US citizen payroll.

government still incurs these training costs regardless of whether PMSCs employ former military service personnel. Neil Harris suggests PMSCs also incur training costs since they pay higher compensation to retain highly trained individuals.¹⁴¹ When contracted by the government, however, this higher compensation would be reflected in the company's bid and thus still paid by the government.

Contractors are temporary whereas military personnel remain in uniform and on the payroll when contingencies end. The potential savings from the presumed post contingency payroll of active duty military personnel are real, however actual savings will likely amount to much less than seems to be the assumption. The military can decrease personnel by recruiting less and diminishing the extra incentives it currently offers such as enlistment and reenlistment bonuses. Given that two simultaneous wars have stretched out over almost a decade, at this rate the military could have gained new personnel who signed up, served their initial enlistment time, and got out two times over without actually increasing overall personnel.

Most cost savings deriving from wartime outsourcing will likely accrue from the costs of long-term veterans' benefits that contractors do not receive, such as the GI Bill, healthcare, disability payments, and retirement.¹⁴² Thus,

¹⁴¹ Neil J Harris, *Contractors and the Cost of War: Research into Economic and Cost-Effectiveness Arguments*, MBA Professional Report (Monterey: Naval Postgraduate School, 2006), 59–67.

¹⁴² The vast majority of people who serve in the military do not retire from it. Military personnel are eligible to retire with pension benefits after 20+ years of military service. David Segal and Mady Segal, "America's Military Population," *Population Bulletin* 59, no. 4 (December 2004): 16.

most of the potential savings from wartime outsourcing are not realized until many years after conflict ends.

Veterans of overseas contingency operations are eligible to receive free medical care for potentially service-related conditions for five years after serving in the military. After these first five years, veterans receive free or subsidized DVA provided medical services, depending upon their designated priority level, income, and disability status. According to a CBO estimate of DVA healthcare expenditures through 2020, annual healthcare costs for overseas contingency operations veterans will constitute on average 7-8% of the DVA's total costs for all enrolled veterans receiving DVA medical treatment.¹⁴³

The CBO's estimate has been criticized for ignoring the longer term costs associated with OIF veterans' healthcare, which will be more substantial than those incurred through 2020. Medical costs for war veterans do not reach their peak until 30 to 40 years after conflict ends, meaning OIF veterans' medical costs will not reach their peak until about 2050. Linda Bilmes, a researcher who has done extensive work on the actual and long-term costs of OIF alongside former World Bank Chief Economist Joseph Stiglitz, estimates the long-term costs for Global War on Terrorism (GWOT) veterans' benefits could exceed \$600 billion - \$1 trillion.¹⁴⁴ As of 2011, roughly 50% of GWOT veterans qualify for government provided disability compensation and subsidized medical care for the rest of their

¹⁴³ Congressional Budget Office, *Potential Costs of Veterans' Healthcare*, A CBO Study (Washington DC: The Congress of the United States, 2010), 6–19.

¹⁴⁴ Linda Bilmes, "Current and Projected Future Costs of Caring for Veterans of the Iraq and Afghanistan Wars" (Harvard University, June 12, 2011), 1. GWOT veterans are veterans who served in OIF or Operation Enduring Freedom (OEF). This analysis does not differentiate between the costs of OIF and OEF veterans. This is partially due to the fact that many veterans have deployed to both Iraq and Afghanistan, therefore the associated medical costs are indistinguishable.

lives. GWOT veterans are also utilizing their DVA benefits at a higher rate than previous war veterans.¹⁴⁵ Assessing both the short and long-term costs of outsourcing is critical to determining its effectiveness.

Through outsourcing, it appears the USG will avoid some of the long-term medical costs associated with conflict. In the absence of contractors, military or government civilian personnel would presumably perform most functions that have been outsourced. However, as Hammes notes, “contractors may claim their insurance covers those costs, the government, in fact, paid for that insurance through the contract, and if the coverage proves insufficient, the government may well end up paying for the continued care through various governmental medical programs.”¹⁴⁶ Given that the majority of contractor personnel operating in Iraq are not US citizens, such contractor medical expenditures will not be borne by the USG to the extent that would be paid to former American military or government civilian personnel. Depending on contractor nationality, other countries may actually incur these costs if contractors utilize government provided or government subsidized healthcare programs where they exist.

The (Un) Predictability of Conflict

Outsourcing during contingencies may be incomparable to outsourcing during times of relative peace and stability. The unpredictable nature of a conflict environment makes writing contracts with enough specificity to ensure

¹⁴⁵ *Ibid.*, 4.

¹⁴⁶ T.X. Hammes, “Private Contractors in Conflict Zones: The Good, the Bad, and the Strategic Impact,” *Strategic Forum*, no. 260 (October 2010): 4.

goals are sufficiently achieved at a reasonable expense difficult.¹⁴⁷ The multitude of unforeseen circumstances that arise during contingencies such as last minute situational or strategic changes problematize original outsourcing efforts aimed at cost savings. Although outsourcing during OIF was generally pursued to fulfill “functions which the military does not have the capacity or capability to provide in-house,”¹⁴⁸ rather than out of concerted efforts to lower expenditures, circumstantial changes the US was unprepared to address further impacted the reconstruction effort and dramatically escalated original contract costs.

As the security situation deteriorated, so did the reconstruction effort. The US military does not protect contractors or government personnel such as contracting officers operating in Iraq. This, alongside the military’s inability to quell rising levels of insurgent violence, amplified security costs beyond anticipation. Project funds were reallocated to site security contracts. The Special Inspector General for Iraq Reconstruction (SIGIR) estimates that by 2008, at least \$5.3 billion had been spent on private security services related to US funded projects alone.¹⁴⁹

Insurgents targeted project sites contracted to American firms. When a sense of insecurity prevailed, American contractors suspended operations with the justification that site conditions deviated from those needed for contract

¹⁴⁷ Eric Fredland and Adrian Kendry, “The privatisation of military force: economic virtues, vices and government responsibility,” *Cambridge Review of International Affairs* 13, no. 1 (1999): 150–155.

¹⁴⁸ Harris, *Contractors and the Cost of War*, 75.

¹⁴⁹ Special Inspector General for Iraq Reconstruction, *Hard Lessons*, 180.

fulfillment.¹⁵⁰ American contractors refused to work when security problems arose, yet their very presence instigated insurgent attacks to begin with. Costs escalated dramatically when American companies subcontracted for site security. These costs were largely irrelevant when projects were contracted to Iraqi businesses since these sites were less vulnerable to insurgent attacks.¹⁵¹

Security concerns also hampered effective contract management and oversight. For example, the Commission on Wartime Contracting found that “DCAA policies and practices...tended to inhibit travel by auditors outside their base of assignment for safety concerns.”¹⁵² Meanwhile, contracts were continually awarded for performance throughout Iraq, despite inabilities and the unwillingness to ensure their proper fulfillment.

Subcontracting

Contractors used subcontractors extensively, contributing to higher costs and delays in the completion of projects. Many big contractors bid on contracts before determining which subcontractors would perform the work and at what cost. Once these details are determined, adequate subcontractor performance is not guaranteed. Work on the Doura Power Plant contracted to Bechtel by USAID exemplifies this point. Initially contracted to take nine months and cost \$34.1 million, three years later the work was still not completed to contract specifications and cost \$121 million when Bechtel handed the unfinished project

¹⁵⁰ Leslie A Dean, “United States Institute of Peace Association for Diplomatic Studies and Training - Iraq Experience Project,” interview by Haven North, October 28, 2004, 13–15.

¹⁵¹ *Ibid.*, 14.

¹⁵² Commission on Wartime Contracting, *At What Cost?*, 30.

over to the US Army Corps of Engineers. Bechtel's subcontractors would not show up at the site because of security concerns and several eventually abandoned the project altogether.¹⁵³

Conclusion

The USG promoted outsourcing as a means to lower costs, streamline operations, and improve quality; and while DOD outsourcing efforts were deliberately initiated to lower costs, outsourcing during OIF was largely pursued in response to rapidly developing needs and insufficient government personnel available to fulfill them. Costs were often unimportant considerations for officials actually involved in outsourcing. In addition, personnel shortages and political policies inhibited the USG's abilities to obtain cost effective and quality support. Competitive contracting and contract management are critical to realizing the potential benefits of outsourcing. Although the USG has acknowledged these important aspects of successful outsourcing, their emphasis has been inadequate when outsourcing for wartime support in Iraq.

¹⁵³ Special Inspector General for Iraq Reconstruction, *Hard Lessons*, 185.

Chapter 4

US Outsourcing During Operation Iraqi Freedom:

The Benefits

In addition to its financial effects, outsourcing has significant impacts on personnel.¹⁵⁴ Indeed, although DOD outsourcing initiatives are specifically aimed at cost savings, surveyed military personnel consider the impacts of outsourcing on mission performance and personnel of greater significance than cost.¹⁵⁵ Warren Anderson, John McGuiness, and John Spicer surveyed air force, army, navy, and Defense Logistics Agency (DLA) personnel involved with DOD outsourcing;¹⁵⁶ over half of the 234 survey respondents opposed DOD outsourcing initiatives.¹⁵⁷ One commander stated, “military forces must always be EFFECTIVE on the battle(field) and we are building organizations that are designed to be most EFFICIENT during peacetime.”¹⁵⁸ This opposition to DOD outsourcing and the secondary nature of cost considerations likely contribute to

¹⁵⁴ Embleton and Wright, “A practical guide,” 99.

¹⁵⁵ Lt Col Warren M Anderson, LTC John J McGuiness, and CDR John S Spicer, “And the Survey Says... The Effectiveness of DOD Outsourcing and Privatization Efforts,” *Acquisition Review Quarterly* (Spring 2002): 100.

¹⁵⁶ Their survey sample targeted specific job positions to ensure survey recipients held positions relevant to the DOD’s outsourcing initiatives.

¹⁵⁷ Anderson, McGuiness, and Spicer, “And the Survey Says,” 94–97.

¹⁵⁸ *Ibid.*, 98.

military leaders utilizing contractors without regard for their potential monetary costs, as illustrated in the previous chapter.

Even if outsourcing can potentially realize some financial savings, military leaders are most interested in benefits beyond cost. In a conflict environment, these benefits include rapidly acquiring personnel who already possess highly needed skills, focusing military personnel on combat, and investing host country nationals in local economic opportunities that deter them from joining opposition groups. Political leaders are interested in utilizing voluntary civilian support to avoid instituting a politically infeasible draft. This chapter will discuss these issues in relation to OIF.

Speed and Specialization

Although primarily pursued to lower costs, outsourcing may be motivated by considerations other than cost. Businesses and governments often outsource to obtain services they do not have the capability to perform in-house or to improve the speed or quality of service provision. Experts and specialists may be able to provide the same services better, faster, or at lower costs than in-house personnel.¹⁵⁹ Speed and specialization are two oft-cited rationales for US military outsourcing.

Contractors are a beneficial and necessary option when the military needs to acquire skills it does not possess, especially when these skills are needed

¹⁵⁹ Embleton and Wright, "A practical guide," 99.

sooner than can be internally developed.¹⁶⁰ Translation exemplifies such a skill. Contracting for translators is faster and easier than training or acquiring military personnel to speak a language at desired proficiency levels.¹⁶¹ It is impractical and unrealistic to think the military would, should, or even could maintain enough personnel proficient in every language to meet the needs of any given conflict or military engagement. Communicating with the population is essential during contingencies, and acquiring interpreter services is nearly always necessary, unavoidable, and beneficial.¹⁶²

Contractors frequently operate, maintain, and repair complex weapons systems. After World War II, the US military gradually increased its reliance on contractor provided weapons services alongside technological innovations and advancements that increased the specialization technicians need to maintain these systems.¹⁶³ The military has utilized new weapons systems during contingencies before military personnel have been trained to operate them, making contractors essential to their operation and maintenance in the conflict environment.

There is a dearth of information publically available that compares or even articulates the time it took contractors and the USG to arrive and commence operations during OIF; however, contractors were notably quicker than military personnel in providing support services in several cases. The LOGCAP III

¹⁶⁰ Mosche Schwartz, *Department of Defense Contractors in Iraq and Afghanistan: Background and Analysis*, CRS Report for Congress (Congressional Research Service, July 2, 2010), 2.

¹⁶¹ Hammes, "Private Contractors in Conflict Zones," 4.

¹⁶² Mark Cancian, "Contractors: The New Element of Military Force Structure," *Parameters* (Autumn 2008): 64.

¹⁶³ Department of Defense Office of the Inspector General, *Civilian Contractor Overseas Support*, 1.

contract stipulates the contractor begin logistical support provision in some scenarios a minimum of 15 days after notification, while most task orders require further advance notice. In practice, however, the LOGCAP III contractor (KBR) sometimes failed to commence work within designated timeframes. Nevertheless, KBR was generally faster than activated military logistics support units, which took between 60 and 158 days to arrive on location during OIF.¹⁶⁴ The military response took so long because reserve and National Guard units largely provide logistical support and these units take longer to deploy than active military units. This delay in the military response was actually due to purposive DOD policies that structured logistical support units in the reserve and National Guard.¹⁶⁵ Regarding performance, both military and contractor logistical support and supply activities during post invasion months have been cited for inadequacies and procedural inefficiencies.¹⁶⁶

Contractors may be faster than the government because contractors and government departments operate according to different guidelines. Military logistical support and diplomatic security provide two examples of these operational differentials. Contractors providing logistical support can acquire materials in the country of operation or from regional sources that the US military has to ship over from the United States. In providing diplomatic security, according to the State Department, “contractors can be recruited, vetted, hired,

¹⁶⁴ Congressional Budget Office, *Logistics Support*, 25.

¹⁶⁵ Ibid.

¹⁶⁶ General Accounting Office, *Defense Logistics: Preliminary Observations on the Effectiveness of Logistics Activities during Operation Iraqi Freedom* (Washington DC: United States Government, 2003), 4–5.

trained, and deployed in 90 to 120 days,”¹⁶⁷ whereas the same process for State Department diplomatic security agents takes two years.

The time differentials in these two examples may reflect OIF realities, however, they are not necessarily the product of inherent capabilities. They are the product of politically determined policies and procedures. If contractors are faster because they acquire materials from local or regional sources, why can't the US military? Why are diplomatic security contractors ready to fulfill the same exact security functions a year and half sooner than State Department personnel? Policies dictating materials sources and personnel procedures constrain government operations and in the process lengthen the time needed to fulfill them. Contractors are faster because they do not face the same constraints put on the USG, constraints the USG itself enacted, restricting its own operations.

Soldiers for Combat

Businesses often outsource peripheral functions in order to dedicate in-house resources to core functions. Likewise, the DOD sought to outsource non-essential functions and dedicate its in-house resources to core activities. Which activities actually constitute the military's core competencies is widely contested. The DOD has not comprehensively outlined its core competencies, nor has it officially articulated which services are essential to fulfilling military operations

¹⁶⁷ Jennifer K Elsea, Mosche Schwartz, and Kennon H Nakamura, *Private Security Contractors in Iraq: Background, Legal Status, and Other Issues*, CRS Report for Congress (Congressional Research Service, 2008), 36.

in conflict environments.¹⁶⁸ Despite these disagreements, at least one function is undisputedly military: combat.¹⁶⁹ Combat operations are considered exclusive to the military and one of its primary responsibilities.

Outsourcing wartime support services allowed in-house military personnel greater dedication to combat operations. There may be significant unintended consequences associated with this redistribution of wartime responsibilities. As Bilmes explains,

in previous wars, military commanders had been able to relieve the heavy strain of conflict for their troops by temporarily assigning them to lighter support tasks (such as kitchen duty – the traditional “peeling potatoes”, or deliveries, construction, vehicle repair or custodial duties). This flexibility provided commanders with a tool to help soldiers dealing with stress or who had experienced unusually heavy combat for a long period.¹⁷⁰

These support functions were outsourced during OIF, thus combat soldiers continuously conducted combat operations. Bilmes suggests such continual combat has “contributed to the epidemic of post-traumatic stress disorder”¹⁷¹ afflicting GWOT veterans.¹⁷² Medical research supports this conclusion; “the

¹⁶⁸ Government Accountability Office, *Military Operations - Contractors Provide Vital Services to Deployed Forces but Are Not Adequately Addressed in DOD Plans*, Report to the Subcommittee on Readiness and Management Support, Committee on Armed Services, U.S. Senate (Washington DC, June 2003), 1–2.

¹⁶⁹ Ibid.

¹⁷⁰ Bilmes, “Current and Projected Future Costs,” 6.

¹⁷¹ Ibid.

¹⁷² Military personnel deployed to Iraq for at least one year do receive 15-18 days of rest and recuperation (R&R) leave. However, this leave is not determined by experiences of combat. It is simply a one-time leave pass given to individuals on a rotational basis. R&R is not a flexible tool that can be used to shift unit responsibilities for a few days when determined beneficial because of conditions on the ground. United States Army, “Frequently Asked Questions for the United States Rest & Recuperation Leave Program,” *U.S. Army Deputy Chief of Staff Army G-1*, n.d..

frequency and intensity of exposure to combat experiences is strongly associated with the risk of chronic post traumatic stress disorder.”¹⁷³

Adopting business practices based on what appear to be sound economic principles may result in indirect costs that, over time, prove more costly than any initial savings generated. Although it may seem self-evident that “to use a highly trained soldier for peeling potatoes is simply not cost-efficient,”¹⁷⁴ the long-term costs, such as medical expenses and disability compensation, associated with the physical and psychological effects on soldiers who endured such intensive combat may well exceed the cost effectiveness of strictly delineating potato peelers and combat soldiers.

Contractors for Combat?

OIF support functions have been outsourced to increase the availability of military personnel for combat operations.¹⁷⁵ The US military is overextended and contractors played a crucial role in carrying out work in Iraq. Contractors provided logistical support, construction activities, transportation services, and security services. However, the presence of armed security providers, as well as other armed contractors in general,¹⁷⁶ led to an obscure situation in which many contractors have clearly engaged in activities most would consider combat.

¹⁷³ Brett T Litz, “The Unique Circumstances and Mental Health Impact of the Wars in Afghanistan and Iraq” (National Center for Post-Traumatic Stress Disorder, Department of Veterans Affairs, January 5, 2007), 1.

¹⁷⁴ Krishnan, *War as Business*, 145.

¹⁷⁵ Schwartz, *Department of Defense Contractors in Iraq and Afghanistan*, 2.

¹⁷⁶ Given the volatile security situation in Iraq, many contractors providing non-security related services have opted to carry weapons, either registered legally or procured in the black market, in order to protect themselves while operating in Iraq. Contractors may

Retired US Army Special Forces Colonel Gerald Schumacher contends that given the ambiguous nature of “the enemy” in Iraq, oftentimes contractors need to act first. Schumacher says, “when circumstances dictate they will not hesitate to open fire. And circumstances require it frequently.”¹⁷⁷ When lines like this are blurred, even when companies have formal codes and regulations dictating the use of force that conform to military standards of engagement, what constitutes defensive security versus offensive aggression becomes debatable. The prevalence of armed contractors using their weapons contributes to their being deliberate targets of Iraqi insurgents.

Schumacher provides an illustrative account of how security contractors have played active roles on the battlefield. When a contractor’s trucks were raided and confiscated by an influential Iraqi businessman while en route to their destination, the company sought help from a fellow contractor, as the US “military basically said that recovering them wasn’t their problem”¹⁷⁸ and Iraqi police forces were considered either incompetent or even complicit. In retaliation, the contractors raided the businessman’s office, stole documents, and kidnapped one of his employees. The contractors proceeded to terrorize and humiliate their victim while negotiating for the trucks and cargo, and did so without notifying the US military or the Iraqi government of their actions.¹⁷⁹ Such contractor interactions with Iraqis have implications for the effectiveness of US military operations in Iraq.

buy armed security services; however, neither the US military nor the Iraqi government provides security to contractors operating in Iraq.

¹⁷⁷ Colonel Gerald Schumacher, *A Bloody Business* (St. Paul: Zenith Press, 2006), 190.

¹⁷⁸ *Ibid.*, 214.

¹⁷⁹ *Ibid.*, 217–229.

Conflicts like the war in Iraq are described by military doctrine as “a competition for legitimacy between the counterinsurgent and the insurgent.”¹⁸⁰ Contractors can potentially delegitimize the US military and the Government of Iraq (GOI), as Iraqis see contractors as an extension of these powers.¹⁸¹ According to an official in the GOI’s Interior Ministry, most Iraqis do not differentiate between contractor personnel and US soldiers.¹⁸² As such, contractor interactions with Iraqis directly affect the legitimacy of US military forces and GOI officials, and thus their abilities to defeat oppositionists, foster stability, and enable an environment in which the GOI can function on its own.¹⁸³

Contractor abuses of Iraqi citizens have been widely publicized. Paul Bremer, as head of the CPA, granted contractors immunity from Iraqi law in 2003,¹⁸⁴ and as of 2010, “in over 7 years of activity in Iraq, no contractor has been convicted in a U.S. court of a crime against Iraqi citizens.”¹⁸⁵ US civilians’ exemption from host country law is not uncommon, as the USG often retains legal authority over American civilians accompanying military personnel either by default when effective governments do not exist or as negotiated through Status of Forces Agreements with host country governments. However, American civilians supporting overseas military operations “are not subject to the criminal jurisdiction of the United States, except those criminal statutes that have

¹⁸⁰ Hammes, “Private Contractors in Conflict Zones,” 11.

¹⁸¹ *Ibid.*, 5–6.

¹⁸² Elsea, Schwartz, and Nakamura, *Private Security Contractors in Iraq: Background, Legal Status, and Other Issues*, 13.

¹⁸³ *Ibid.*, 12–13; Hammes, “Private Contractors in Conflict Zones,” 5–6.

¹⁸⁴ Office of the Administrator of the Coalition Provisional Authority, *Regarding the Status of Coalition, Foreign Liaison and Contractor Personnel*, Public Notice (Baghdad, Iraq, June 26, 2003).

¹⁸⁵ Hammes, “Private Contractors in Conflict Zones,” 6.

extraterritorial application.”¹⁸⁶ Consequently, “such civilians can and do commit serious offences”¹⁸⁷ such as violent or sexual crimes without sufficient or official consequence. The USG has been notably inadequate at prosecuting such American civilians due to inadequate legislation and a lack of political will. When contractors act, and in fact are, above the law, US military and GOI authority is delegitimized since these entities allow contractors to act with impunity.

Host Country Employment Benefits

Establishing conditions conducive to economic growth and creating employment opportunities are critical contributors to maintaining security in the post-conflict environment. Contracting can potentially advance these aims.¹⁸⁸ Military doctrine on counterinsurgencies emphasizes the importance of engaging the local population in reconstruction efforts, especially young “males of military age,”¹⁸⁹ however; the US’s prioritization of Iraqi employment has been inadequate. In 2008, Iraq’s unemployment rate was at least 18%, while an additional 10% of working Iraqis were underemployed. Fifty-seven percent of the unemployed were 15-29 year old males.¹⁹⁰ Despite the supply of jobless Iraqis, third country nationals have been imported to Iraq to the extent that their employment by contractors has at times outnumbered Iraqis (see figure 13). The

¹⁸⁶ Overseas Jurisdiction Advisory Committee, *Report of the Advisory Committee on Criminal Law Jurisdiction over Civilians Accompanying the Armed Forces in Time of Armed Conflict* (Washington DC: United States Government, April 18, 1997), v.

¹⁸⁷ Ibid.

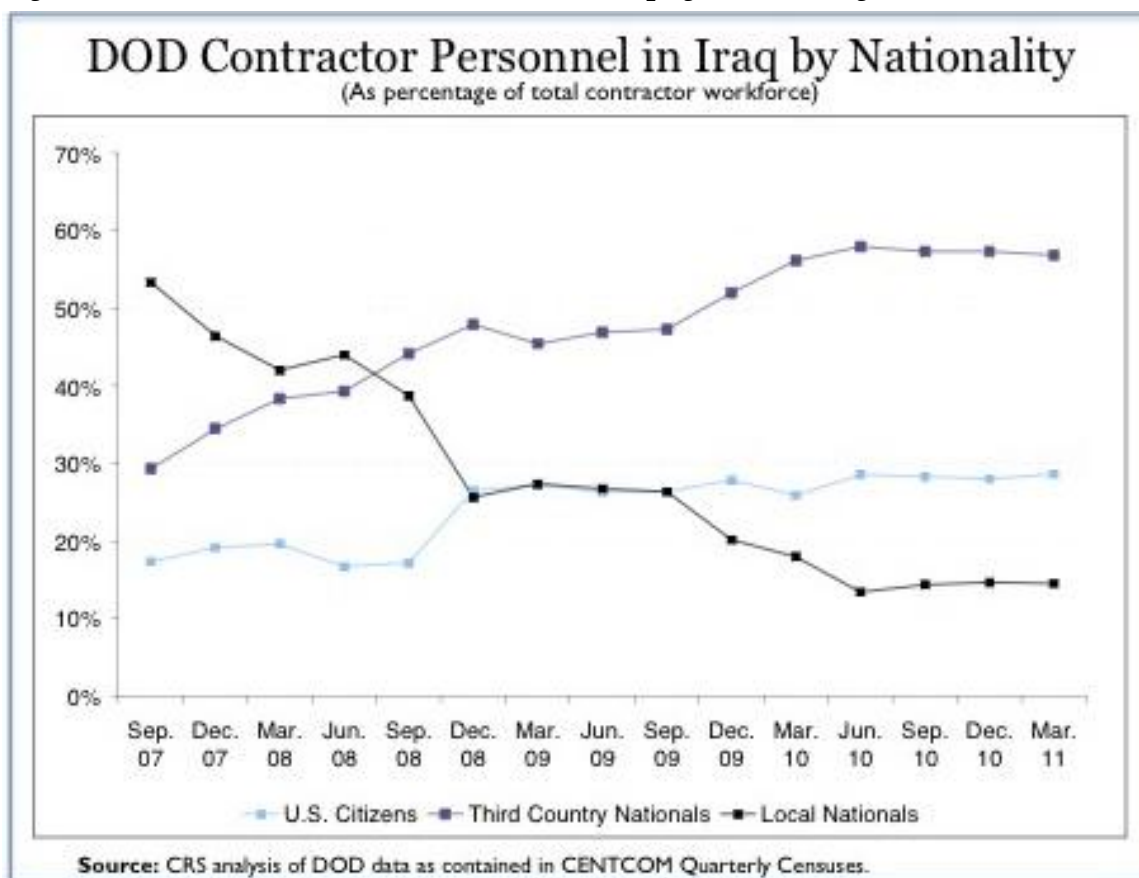
¹⁸⁸ Commission on Wartime Contracting, *At what risk?*, 8.

¹⁸⁹ David H Petraeus and James F Amos, *Counterinsurgency* (Department of the Army, December 2006), 5–17.

¹⁹⁰ Inter-Agency Information and Analysis Unit and United Nations Office for the Coordination of Humanitarian Affairs, *Iraq Labour Force Analysis*.

influx of foreign labor employed by foreign contractors was highly unpopular. Iraqis are stakeholders and engaging them in the reconstruction of their country, politically, economically, and socially, ensures their commitment to a better future and their rejection of the alternative.

Figure 13: DOD Contractor Personnel in Iraq by Nationality



Source: Adapted from Mosche Schwartz and Joyprada Swain, *Department of Defense Contractors in Iraq and Afghanistan: Background and Analysis*, CRS Report for Congress (Congressional Research Service, 2011), 4.

The US's initial reconstruction effort focused on large-scale infrastructure projects, which were contracted to large foreign companies, in many cases American companies. Although these companies subcontract out most of the

actual work to other companies, American, foreign, or Iraqi, these projects proved much less effective than small-scale contracts awarded to local businesses. Colonel Bob Bishop of the US Army Reserves, Special Forces, served in Iraq from April 2003 to March 2004. He asserts “US contractors were slow and constrained by rules and regulations,”¹⁹¹ while contracts totaling less than \$10,000 awarded to local Iraqi contractors were instrumental immediately after the invasion, providing employment and fostering good will.

The Commanders Emergency Response Program (CERP) reflects Bishop’s assessment. Military leaders on the ground identified a need for the ability to contract small-scale projects at the local level and as a result CERP was established in May of 2003. The contracting process was streamlined and contracts of \$50,000 or less focused on small-scale projects such as repairing damaged public buildings, bridges, and roads. Through 2010, CERP contracted projects totaled close to \$3.6 billion. Although CERP funds were at times used inappropriately, “military commanders report that the ‘benefit received from CERP funds far outweighs the amount [of funds] provided.’”¹⁹² CERP illustrates the effectiveness of engaging locals in projects that contribute to the reconstruction of their own communities. Unfortunately, CERP was relatively small compared to other US reconstruction initiatives.

¹⁹¹ Bob Bishop, “United States Institute of Peace Association for Diplomatic Studies and Training - Iraq Experience Project,” interview by Philip J Wilcox, July 15, 2004, 2.

¹⁹² Special Inspector General for Iraq Reconstruction, *Lessons in Contracting and Procurement*, 88.

In some situations CERP funds financed the provision of local services the GOI should have been providing. Doing so inhibited efforts to establish sustainable Iraqi provision, while distorting Iraqi labor markets. CERP funds were also inappropriately used to finance projects that were larger and more expensive than program guidelines.

Avoiding Conscription

As illustrated previously, personnel shortages were problematic throughout OIF. These shortages existed in every government department operating in Iraq and included both military and civilian personnel. Contractors were utilized in an attempt to fill this gap between the personnel available and the personnel needed to fulfill the objectives the US set out to accomplish. The US military did not have enough personnel to sustain long-term operations in Iraq. According to the CBO, “the demands of the deployments have led DOD to activate segments of its personnel it would not ordinarily tap”¹⁹³ such as Individual Ready Reserve (IRR) personnel.¹⁹⁴ Military personnel have also been stop-lost, or “involuntarily retained” past their service agreements for deployments.¹⁹⁵ Additionally, the army increased the length of many deployments from the standard 12 months to 15 months. Replacing contractors with soldiers in Iraq would have been “impossible without reconstituting the draft.”¹⁹⁶ Even after devoting more resources to recruiting, offering higher recruitment and retention bonuses, increasing benefits and pay, and lowering enlistment standards, the military has struggled to recruit and retain personnel.¹⁹⁷ In 2005, for example, total active US Army personnel actually

¹⁹³ Congressional Budget Office, *Recruiting, Retention, and Future Levels of Military Personnel*, A CBO Study (The Congress of the United States, October 2006), 27.

¹⁹⁴ Personnel in the IRR are former military service members who can be involuntarily called up if needed for eight years after active service.

¹⁹⁵ Congressional Budget Office, *Recruiting, Retention, and Future Levels of Military Personnel*, 15–27.

Army policy stipulates stop-lost personnel have to stay in the army for their deployment plus 90 days before and after.

¹⁹⁶ Cancian, “Contractors: The New Element of Military Force Structure,” 73.

¹⁹⁷ *Ibid.*

decreased by three percent.¹⁹⁸ In 2006, 49% of recruits were considered high quality,¹⁹⁹ the army's lowest rate of high quality recruits in over 20 years.²⁰⁰ In 2007, the CBO suggested ongoing military engagements in Iraq and Afghanistan might further inhibit military recruitment and retention since ongoing military operations increase the probability of deployment.²⁰¹

Reinstating the draft has little popular support in the US. Gallup polls in 2003, 2004, and 2007 found that at least 80% of adults have consistently opposed the draft (see figure 14). A 2004 CBS News poll connected reinstating the draft to the war in Iraq, asking, "Do you favor or oppose reinstating the military draft to provide soldiers for the Iraq conflict?" Eighty-two percent of survey respondents said no (see figure 15). Clearly, using the draft to obtain the personnel necessary to fulfill US military engagements abroad is not a politically feasible option.

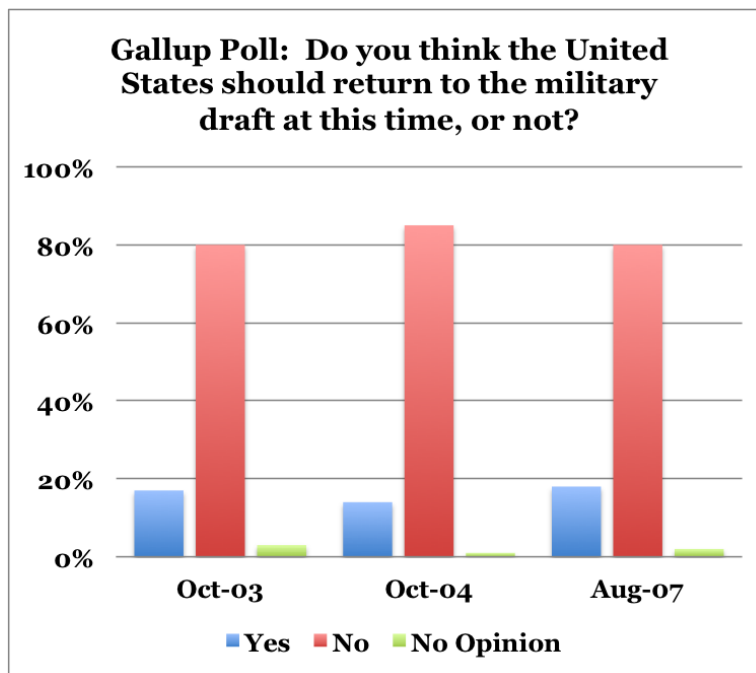
¹⁹⁸ Congressional Budget Office, *The All-Volunteer Military: Issues and Performance*, A CBO Study (The Congress of the United States, July 2007), 1.

¹⁹⁹ Recruits with at least a median Armed Forces Qualifications Test score and high school diploma are considered "high quality".

²⁰⁰ Congressional Budget Office, *The All-Volunteer Military*, 18.

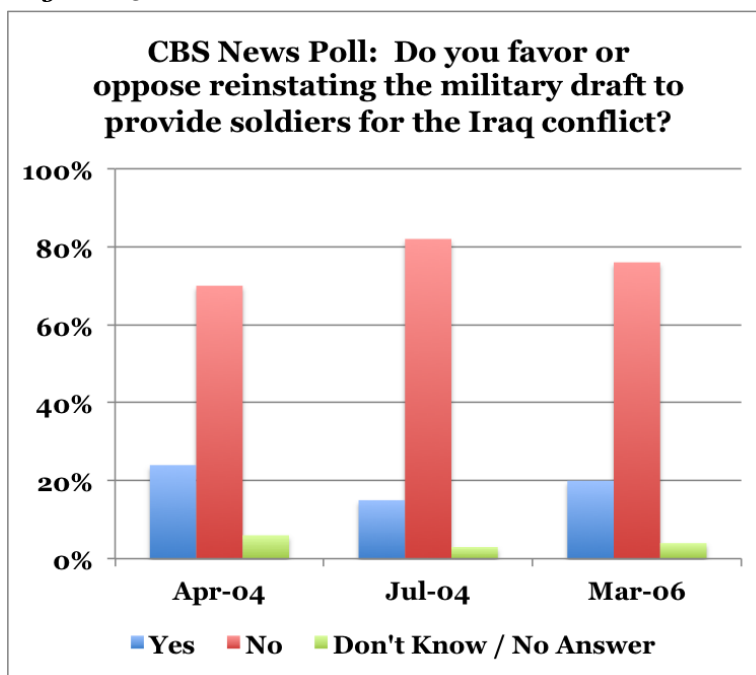
²⁰¹ Congressional Budget Office, *Recruiting, Retention, and Future Levels of Military Personnel*, 26–28.

Figure 14: Gallup Poll



Data Source: iPOLL Databank, The Roper Center for Public Opinion Research, University of Connecticut

Figure 15: CBS News Poll



Data Source: iPOLL Databank, The Roper Center for Public Opinion Research, University of Connecticut

Given the strong popular opposition to reinstating the military draft, contractors have been crucial to augmenting US operational capacities on the ground during OIF. The US military has utilized its active military forces to arguably the greatest extent possible, even pursuing various options of last resort such as calling up former service members to increase its pool of deployable personnel. Contractors filled in the personnel gaps that remained after these efforts were implemented. Even with contractors at times outnumbering military personnel, the human resources devoted to OIF, in size and skill, have arguably still been inadequate.

Conclusion

Activities directly related to an organization's primary operations should not be outsourced.²⁰² Surveyed management personnel from businesses whose outsourcing efforts proved unsuccessful and even detrimental often attributed their failures to wrongfully outsourcing essential functions of their operations.²⁰³ Given the primacy of security during conflicts of insurgency, the extent to which the USG outsourced security services was problematic since it transferred the performance of essential functions to third party providers. However, OIF outsourcing also enabled the military to acquire needed skills that it did not possess and arguably could not otherwise obtain. Given the political framework

²⁰² William A Lankford and Faramarz Parsa, "Outsourcing: a primer," *Management Decision* 37, no. 4 (1999): 311.

²⁰³ Jerome Barthelemy, "The seven deadly sins of outsourcing," *Academy of Management Executive* 17, no. 2 (2003): 88.

in which government departments operate, outsourcing in some cases proved an expedient option.

Chapter 5

Waste, Fraud, and Corruption in Conflict Contracting

Numerous factors contributed to a contracting environment vulnerable to waste, fraud, and corruption. The entire US contracting strategy, or essentially a lack thereof, negatively affected US operations in Iraq. When contracting for reconstruction and governance support projects, the failure to involve Iraqis, incorporate their opinions, or consider the GOI's capabilities inhibited successful contracting outcomes. Inadequate contract management and oversight as well as poor contracting practices provided opportunities for wasteful, fraudulent, and corrupt behavior, in many cases without consequence.

Institutionalizing Waste

US Comptroller General David Walker offers the following definition of waste:

Waste occurs when taxpayers do not receive reasonable value for their money in connection with any government-funded activity

due to inappropriate acts or omissions by officials with control over or access to government resources.²⁰⁴

Waste typically results not from illegality; rather, it is largely the product of inadequacies, poor practices, and mismanagement more generally.²⁰⁵ Billions of dollars have been wasted because of poor planning prior to and during the US led invasion, occupation, and reconstruction of Iraq.²⁰⁶ Cost-plus contracts are notorious for generating excessive costs, yet the USG awarded large cost-plus contracts. By failing to adequately include Iraqis or consider the GOI's capabilities, many costly projects will go unused or inadequately maintained. Other contributors to waste in OIF contracting include poor oversight and government dependence.

Poor Contracting Practices: Cost-Plus Contracts

Foreign and largely US based companies received large-scale, high dollar, reconstruction contracts. In turn these companies subcontracted to American, Iraqi, or foreign companies who in turn may have further subcontracted to other companies. A CRS report explains that “contracts won by U.S. firms had to be revoked and re-awarded to Iraqis”²⁰⁷ due to slow progress, poor performance, and excessive costs. According to SIGIR, at least 15-20% of \$21 billion in IRRF funds have been wasted. Inappropriate contracting policies and procedures

²⁰⁴ Government Accountability Office, *Military Operations - High-Level DOD Action Needed*, 2.

²⁰⁵ Ibid.

²⁰⁶ Commission on Wartime Contracting, *Lessons from the Inspectors General: Improving Wartime Contracting* (Washington DC: United States Government, 2009), 53.

²⁰⁷ Tarnoff, *Iraq: Reconstruction Assistance*, 11.

contributed to an already precarious conflict environment, “and contractors took advantage of it.”²⁰⁸

The CPA awarded 12 design and build contracts at a cost of \$10 billion. The CPA utilized “design and build” contracts, wherein the same contractor both designs and builds a reconstruction project, despite the inherent conflict of interest involved when the designer is also the builder, as contractors often purposively design projects within their building capabilities regardless of other relevant considerations or manipulate a project’s design to maximize profitability. Contracts were awarded to large American companies that did not design or build projects that would have “had the best chance of taking root in Iraq’s soil, as well as its social and governmental institutions.”²⁰⁹

These design and build contracts were cost-plus contracts. Under cost-plus-a-percentage contracts, the contractor is reimbursed for project costs and paid a percentage of those costs as profit. Under such an arrangement, there is no incentive to control costs; rather, it is beneficial to inflate them. Cost-plus contracts are reportedly awarded “in risky situations when the U.S. government is unable to provide sufficient information for offerers to accurately determine a

²⁰⁸ *Effective Counterinsurgency: How the Use and Misuse of Reconstruction Funding Affects the War Effort in Iraq and Afghanistan* (Washington DC, 2009), 23.

²⁰⁹ Commission on Wartime Contracting, *At What Cost?*, 81.

All 12 contracts involved American contractors. Seven contracts were awarded to exclusively American companies, three contracts went to joint ventures including companies from the US and United Kingdom, one contract was awarded to a joint venture of companies from the US and Australia, and one contract was awarded to a joint venture of companies from the US, Egypt, Netherlands, Panama, and the United Arab Emirates.

Special Inspector General for Iraq Reconstruction, *Lessons in Contracting and Procurement*, 60.

competitive price.”²¹⁰ As such, under cost-plus contracts the government assumes all of the risk, which is supposedly necessary for contractors to bid because of the uncertainty involved in determining project costs.

Paul Hinks, an experienced contractor whose company has worked on multiple contracts in Iraq directly for the USG and indirectly as a subcontractor, contends “cost-plus construction contracts in the contingency environment are not essential, nor are they in the public interest.”²¹¹ Testifying before the US Congress, Hinks said that in nearly 30 years of construction work, including extensive work in developing countries and in conflict environments, he had never even heard of cost-plus contracts until his experiences with USG contracting in Iraq. Hinks goes on to explain the justification for using cost-plus contracts is unwarranted since contractors subcontract out most of the work but subcontracts are not cost-plus, they are fixed fee.²¹² Subcontractors are thus assuming the same risks prime contractors allegedly would not, illustrating the fallaciousness of the cost-plus justification.

The USG is well aware of the problems associated with cost-plus contracts, and has been for quite some time. Cost-plus contracts were utilized to procure manufactured products that supplied US military operations during World War I, resulting in excessive costs to the government and abnormally high profits to the producers. At that time, cost-plus contracts were justified on the grounds that they encouraged companies to shift production towards goods needed for the war

²¹⁰ Ibid., 56.

²¹¹ Commission on Wartime Contracting, *Subcontracting: Who’s Minding the Store?*, 154.

²¹² Ibid., 152–154.

effort without risk. As former US Senator David Walsh concluded, “not only did cost-plus-a-percentage-of-cost contracts fail to curb war-profiteering; they aggravated it.”²¹³ This outcome should have been obvious, “but in this as in so many aspects of pricing, hindsight is superior to foresight.”²¹⁴ Nevertheless, the USG would award expensive cost-plus contracts during future conflicts.²¹⁵

During the Vietnam War, the US outsourced the construction of infrastructure projects such as highways and military bases in Vietnam. One contractor, RMK-BRJ, fulfilled the bulk of the construction under a cost-plus contract. RMK-BRJ was a joint venture formed out of several large American construction companies: Raymond International, Morrison-Knudsen, Brown and Root, and J. A. Jones Construction Company. Brown and Root is the predecessor to Kellogg, Brown, & Root (KBR), the largest OIF contract recipient. RMK-BRJ’s operations in Vietnam “developed into one of the largest construction efforts in history.”²¹⁶ Between 1962 and June 1971 RMK-BRJ reportedly employed a total of 214,700 personnel in Vietnam. This number includes 200,000 Vietnamese, 8,600 Americans, and 6,100 third country nationals. RMK-BRJ’s Vietnam War contracts totaled nearly \$2 billion. A 1972 report to the Committee on Appropriations concluded that “in addition to the

²¹³ David L Walsh, “War Profits and Legislative Policy,” *The University of Chicago Law Review* 11, no. 3 (April 1944): 194.

²¹⁴ *Ibid.*, 193.

²¹⁵ The USG purposively sought to minimize cost-plus arrangements when contracting during World War II. Many concluded, however, “that despite the very elaborate efforts to effect incentive pricing, contract pricing approached dangerously to a highly disguised cost-plus-percentage-of-cost basis.”

John Miller, “Military Procurement Policies: World War II and Today,” *The American Economic Review* 42, no. 2 (May 1952): 464.

²¹⁶ *Military Construction Appropriations for 1973, Part 3, Air Force, Defense Agencies, Reserve and Guard* (Washington DC, 1972), 62.

extremely high cost of maintaining a capability such as RMK-BRJ under a cost-plus-award-fee contract compared with that of a lump sum award contract, the development of local Vietnamese contractors is also hindered,”²¹⁷ as Vietnamese businesses could not possibly compete for the large-scale projects awarded under RMK-BRJ’s contract.

The Global Maintenance and Supply Services Contract

Iraqi Army logistical support has been provided through the Global Maintenance and Supply Services (GMASS) contract, awarded to AECOM in late 2004. As of 2009 at least \$683 million had been allocated for OIF support through the GMASS contract. SIGIR audited four invoices totaling \$30.6 million AECOM submitted to the USG for payment under the contract. SIGIR’s audit identified about \$4.3 million as questionable due to the contractor charging more than prices agreed upon in the cost-plus contract, charges greater than market value, and for duplicate or triplicate work items.²¹⁸

Under the GMASS contract, AECOM ordered replacement parts for items such as army vehicles to stock a parts warehouse. Although already permitted to charge the USG 18.27-22.3% more than the contractor actually paid for every part ordered, SIGIR identified a number of cases in which the mark-up on parts was much greater. For example, coolant was billed to the USG at \$25 per liter even though it was bought for \$2.16 per liter. This example is not negligible, as the

²¹⁷ Ibid., 66.

²¹⁸ Special Inspector General for Iraq Reconstruction, *Iraq Security Forces Fund: Weak Contract Oversight Allowed Potential Overcharges by AECOM to go Undetected* (Arlington, 2009), 2–3.

USG was overbilled a total of \$1.7 million just for coolant on the four invoices SIGIR audited.²¹⁹

The GMASS contract exemplifies understaffing in contract oversight. One person was dedicated to reviewing invoices submitted for payment under the contract, while the complexity of the invoices obviates the inadequacy of having just one individual verifying the charges billed.²²⁰ As SIGIR explains, “one invoice was about \$24 million and contained over 11,000 line items for parts alone.”²²¹ Identifying whether AECOM was overcharging for parts like the coolant was not a part of the contracting office’s review process. Even if the appropriate amount of staff were dedicated to reviewing the \$567 million invoiced to the USG for AECOM’s work in Iraq, charges such as this would still not be questioned, rather, they would be paid, and in fact they already have been paid.²²²

Iraqi Involvement

The US attempted to install foreign institutions and practices in Iraq without adequately engaging Iraqis in the process. Throughout the US-led reconstruction, plans were often made and carried out without obtaining, and on some occasions in opposition to, Iraqi opinion and input.²²³ Consequently, SIGIR audits outline many “expensive projects that the Iraqis did not want and

²¹⁹ Ibid., 4.

²²⁰ These invoices included not only the \$567 million in invoices submitted for work in Iraq at the time of SIGIR’s audit, but also invoices for supporting the US and Afghan Armies, as the scope of the GMASS contract was larger than just AECOM’s operations in Iraq.

²²¹ Special Inspector General for Iraq Reconstruction, *Iraq Security Forces Fund*, 3.

²²² Ibid., 5.

²²³ Commission on Wartime Contracting, *Lessons from the Inspectors General*, 41.

cannot use.”²²⁴ The GOI has failed to maintain many of these projects, among others, after they are transferred to Iraqi authority. A combination of purposive neglect and GOI incapacity has led SIGIR to conclude that the greatest amount of waste in the Iraq reconstruction process may be yet to come.²²⁵

Like with the cost-plus contracts, these practices have already proved unsuccessful during previous conflicts. The US military, with contracted help, attempted to impose foreign institutions and infrastructures on Vietnam in the 1960s and 1970s. Contractors and military personnel tried to establish a “modern” South Vietnamese military, supplying equipment and teaching people how to use and maintain it. Despite these efforts, soon after US support ceased, the “logistics shortcomings of the supposedly modern South Vietnamese military contributed to its rapid disintegration when the North Vietnamese advanced in 1975.”²²⁶ The modern Vietnamese military the US tried to create was “not indigenously sustainable and was incompatible with the Vietnamese material culture and economic capabilities.”²²⁷ Vietnamese distrust of, and the perceived illegitimacy of, the foreign imposed institution led to corrupt practices and poor management.²²⁸ This example from Vietnam illustrates the importance of engaging host country nationals in project planning and implementation. Resources are wasted when the customs, capacities, and preferences of the recipients who use and ultimately maintain projects are ignored.

²²⁴ Ibid.

²²⁵ Ibid., 47.

²²⁶ Petraeus and Amos, *Counterinsurgency*, 8–10.

²²⁷ Ibid.

²²⁸ Ibid.

Depending on Contractors

When officials did identify and document OIF contractor inadequacies, penalties for poor performance were rarely enforced. Enforcing penalties incentivizes contractors to improve practices and procedures, while discouraging substandard provision.²²⁹ This lack of enforcement is partially attributable to the USG's high level of dependence on contractors, which in some cases inhibited its willingness to impose penalties out of fear that contractors would not or could not continue to provide OIF support upon their imposition, as exemplified by the LOGCAP III contract.

The military needed the support services KBR provided and had no backup plan for acquiring those services through alternative means. As early as 2004 this dependence was well known within government circles and within KBR. According to federal regulations, the government withholds 15% of subcontract costs billed under undefinitized contracts and task orders²³⁰ "to incentivize contractors to submit adequate and timely cost proposals in order to facilitate timely contract definitization."²³¹ The army violated this regulation as it continued to fully reimburse KBR until August 2004, at which point the Defense Contract Audit Agency (DCAA) declared the 15% withhold should be enforced because KBR had been requesting reimbursement for inappropriate costs. Upon

²²⁹ Commission on Wartime Contracting, *At What Cost?*, 74.

²³⁰ A contract or task order is undefinitized when the contractor actually begins work "before the Government and contractor agree on the price, terms, or specifications" of the job.

Department of Defense Office of the Inspector General, *Report on Review of Army Decision Not to Withhold Funds on the Logistics Civil Augmentation Program III Contract*, Oversight Review (United States Department of Defense, February 16, 2010), 2.

²³¹ *Ibid.*, 3.

notification, KBR told army officials the company would delay paying its subcontractors if the USG withheld 15% and that this “could create a severe disruption of vital support services provided to the troops.”²³² A KBR official also threatened to sue the army as well as two contracting officials if the 15% was delayed. Consequently, the army continued to reimburse KBR for 100% of costs incurred under undefinitized task orders.²³³ Although DOD acquisition regulations require the development of a backup plan to ensure the delivery of vital services during contingencies without interruption, the army had no backup plan for the LOGCAP III contract, which meant the army could not enforce penalties or terminate the contract and KBR knew it.

Overcharging and Under Delivering

As illustrated in the previous chapter, much of the potential cost savings from OIF outsourcing derive from labor. Interestingly, contractors use the very same source to widen their profit margins. Contractors increase profits by inflating labor costs. An anonymous letter sent in May of 2005 to Colonel Theodore S. Westhusing,²³⁴ then director of Counter Terrorism / Special Operations (CTSO) activities in Iraq, outlines how this happens. The contractor (in this case US Investigative Services (USIS)) bills the government labor costs for the number of trainers and staff outlined in the contract. Meanwhile, the

²³² Ibid., 7.

²³³ Ibid.

²³⁴ Colonel Westhusing was found dead in his room in Iraq on June 5, 2005. His death was determined a suicide. In his suicide note, Westhusing wrote “I didn’t volunteer to support corrupt, money grubbing contractors.”

US Army Inspector General Office of the Inspector General, *Report of Investigation (Case 05-030)*, Report of Investigation (Washington DC: US Army Inspector General, September 20, 2005), Annex 5.

number actually employed is much less.²³⁵ Poor oversight enabled such practices, which effectively increased contractor profits while undermining US operations in Iraq, as USIS's contract entailed training Iraqi Emergency Response Unit (ERU) forces. The letter to Colonel Westhusing illustrates:

Every day that they don't have an instructor on the ground means more profit for them. They know that you and the COR are not going to check their numbers against what they are supposed to have. USIS also thinks that even if you catch them, they will be able to argue their way out of it because you did not Define Instructor numbers under your SOW... It is a safety problem... We are so short of instructors that we are not really teaching anything out here... USIS still gets their money but you do not get your training... don't take my word for it, actually come out here and ask!!!²³⁶

The letter further alleges contractor personnel were not adequately qualified to train ERU forces, that third country national guards may have been illegally trafficked into Iraq, and that contractors killed Iraqi civilians while inappropriately accompanying ERU forces on their missions.²³⁷

The apparent lack of trained personnel necessary to oversee such large scale and extensive outsourcing initiatives resulted in ad-hoc, after the fact analyses of what went wrong, which limits the effectiveness of outsourcing in the first place and makes recouping losses practically impossible in many cases. The USG paid contractors regardless of whether contracts were fulfilled according to

²³⁵ One example given in the letter estimates 500 people were actually employed at the project site, while USIS charged the USG labor costs for 700 personnel.

²³⁶ Anonymous, "Anonymous Letter to Col Westhusing", 2005.

COR refers to contract officer representative and SOW refers to statement of work.

²³⁷ Ibid.

contract specifications and quality standards.²³⁸ Even when caught relatively early, contractors have received few repercussions for contract infringements. The USG has not pursued many identified cases of contractor abuse or poor performance because poorly constructed contract specifications lower the probability of recouping government losses through litigation. As discussed in chapter three, personnel shortages and security concerns contributed to an environment in which “contractors had poorly defined statements of work, and the government failed to take timely action to remedy problems and in many cases was unaware of contractor progress and expenditures.”²³⁹

Facilitating Fraud and Corruption

Corruption can be defined as the abuse of a public position for private gain. Corruption often pervades conflict and post-conflict environments, as politicians and other beneficiaries prey on opportunities arising during and after conflict.²⁴⁰ The contracting process for reconstruction activities, particularly infrastructure projects, is often manipulated to ensure certain contractors receive contracts in exchange for bribes paid to political officials.²⁴¹ Weak and failed states are especially vulnerable to corruption; political institutions in these states are rarely capable of effectively eradicating corruption and the conditions that cause it.²⁴²

²³⁸ Commission on Wartime Contracting, *Lessons from the Inspectors General*, 77.

²³⁹ Special Inspector General for Iraq Reconstruction, *Recurring Management Issues*, 13.

²⁴⁰ Transparency International, *Global Corruption Report 2005* (Transparency International, 2005), 73–74.

²⁴¹ *Ibid.*, 74–76.

²⁴² Susan Rose-Ackerman, “Corruption and Government,” *International Peacekeeping* 15, no. 3 (June 2008): 330.

The degradation of political institutions during conflict and its aftermath may result in a weak political establishment.

Containing corruption in post-conflict environments is essential, especially when conflict results in regime change. If the populace considers the political administration corrupt, the post-conflict government lacks popular support and widespread legitimacy. Further, post-conflict corruption inhibits foreign investment as well as institutional participation by the domestic population.²⁴³ These impediments to normalizing economic activity and economic growth further delegitimize the regime in a cycle that exacerbates political instability and economic degeneration.

It is well known that corruption was the rule rather than the exception in Iraq under Saddam Hussein's regime. Being so entrenched, the overthrow of Saddam's regime was not synonymous with the overthrow of corruption. Social norms do not change overnight, even if the law does. Hardly the liberated democratic government the US envisioned would rise from the ashes of war, Iraq's post-2003 political system is endemically corrupt and has severe limitations in functionality and capacity. Iraq ranked #2 on the Failed States Index in 2007²⁴⁴ and ranked 175th out of 178 countries on Transparency International's 2010 Corruption Perceptions Index.²⁴⁵ Iraqis' perceptions of corruption were higher in 2010 than they were in 2003.²⁴⁶ Historical corruption, post-conflict conditions, and a fledging Iraqi government contributed to an

²⁴³ Ibid., 332.

²⁴⁴ The Fund for Peace, "Failed States Index Scores 2007", 2007.

²⁴⁵ Transparency International, "Corruption Perceptions Index 2010", 2010.

²⁴⁶ Transparency International, "Corruption Perceptions Index 2003", 2003. Iraq scored 2.2 on the 2003 index and 1.5 on the 2010 index.

environment in which corruption thrived. It is not unthinkable that businesses would exploit this political situation.

One Iraqi serving as a senior advisor to USG officials in Iraq anonymously testified before the US Congress contending, “the American government... has been complicit in creation of this culture of corruption”²⁴⁷ that has developed within the GOI.²⁴⁸ Through 2006, the USG had dedicated less than \$65 million to anticorruption efforts, constituting not even .003% of IRRF funds, though fighting GOI corruption had been one of the USG’s stated priorities.²⁴⁹ As of 2008, the USG had spent \$6 billion developing Iraq’s energy sector but only \$300 million developing GOI ministries.²⁵⁰ Adequate resources were not devoted to preventing and reducing corruption, while spending on contracted infrastructure projects increased opportunities for corrupt practices.

In Iraq, wartime contracting facilitated the use of political office for personal gain. According to Salam Adhoob, former chief investigator of the GOI’s Commission on Public Integrity, officials in Iraq’s Ministry of Defense would award contracts to front companies created by friends and relatives. The companies would then deliver poor quality and insufficient goods and services, if they delivered anything at all. Investigations by Iraq’s Bureau of Supreme Audit revealed numerous ghost projects, projects that existed on paper but not in

²⁴⁷ *Contracting Waste, Fraud, and Abuse in Iraq* (Washington DC, 2008), 18.

²⁴⁸ *Ibid.*, 17–18.

²⁴⁹ United States Department of State and The Broadcasting Board of Governors, *Survey of Anticorruption Programs Embassy Baghdad, Iraq* (Baghdad: Office of Inspector General, 2006), 10.

²⁵⁰ Statement of David M. Walker Comptroller General of the United States, *Stabilizing and Rebuilding Iraq - Actions Needed to Address Inadequate Accountability over U.S. Efforts and Investments* (Washington DC: United States Government Accountability Office, 2008), 3.

reality.²⁵¹ By selectively awarding contracts, Iraqi officials used their public positions to enrich themselves, their friends, and their families, while undermining the reconstruction effort.

OIF corruption was not limited to Iraqi officials. Numerous high-ranking US military and civilian officials have been indicted for colluding with contractors in kickback and bid rigging schemes. Fraudulent behavior thrived in an environment lacking oversight and coordination. SIGIR's Deputy Inspector General, Ginger Cruz, says SIGIR "investigations have uncovered bribery and kickbacks between contract officials and contractors, extortion by contracting officials, embezzlement, thefts of cash and equipment by officials and contractor employees, bribery of Iraqi officials, and fraud by U.S. and allied contractors."²⁵² Private contractors, American, Iraqi, and foreign national military personnel of all rankings, government civilian employees, and nongovernmental organization personnel have committed these crimes.

Iraq's cash economy amplified opportunities for fraud and corruption. The CPA spent \$12 billion in cash between May 2003 and June 2004. In total, 484 pallets of US currency weighing 363 tons were flown from the United States to Iraq. According to SIGIR, this cash was spent without adequate financial controls or transparency. Financial information and transaction records were insufficient. Eight billion dollars were disbursed to GOI ministries without obtaining information on how the cash was spent and without ensuring it was

²⁵¹ Salam Adhoob, *An Inside View of the "Second Insurgency": How Corruption and Waste Are Undermining the U.S. Mission in Iraq* (Washington DC, 2008).

²⁵² Commission on Wartime Contracting, *How Good is our System for Curbing Contract Waste, Fraud, and Abuse?* (Washington DC: United States Government, 2010), 12.

spent legitimately.²⁵³ The CPA's lax attitude towards GOI spending, as well as its own, facilitated the entrenchment and normalization of corruption during the formative months of Iraq's post-war political system.

Conclusion

The extent to which OIF outsourcing has increased the prevalence of waste, fraud, and corruption cannot be precisely known. Certainly waste, fraud, and corruption are not unique to the private sector. Corruption is, in its nature, a political phenomenon. However, the extensive use of contractors during OIF, alongside abysmal contract planning, management, and oversight, led to waste and contributed to an environment open to fraud and corruption. Indeed, the Commission on Army Acquisition and Program Management in Expeditionary Operations, also known as the Gansler Commission, asserts that the army's poor contracting processes, inadequate contract management (financial and technical), and inadequate guidelines and training "have significantly contributed to the waste, fraud, and abuse in-theater by Army personnel."²⁵⁴ The high volume of contracts and the fast pace in which they were awarded provided ample opportunities for bribes and kickbacks in the process. The prioritization of large-scale infrastructure projects and relative neglect of government capacity and institution building weakened the GOI's capacities to ward off corruption, while channeling funds into an industry known for its vulnerability to corrupt practices.

²⁵³ Committee on Oversight and Government Reform, *Re: Cash Transfers to the Coalition Provisional Authority*, MEMORANDUM (Washington DC: Congress of the United States, House of Representatives, February 6, 2007), 2–6.

²⁵⁴ Commission on Army Acquisition and Program Management in Expeditionary Operations, *Urgent Reform Required*, 1.

Chapter 6

PMSCs and Conflict – Conclusions

DOD outsourcing developed as the DOD strategically sought to transform its operations by adopting successful business practices. However, the application of business strategies to military operations in conflict environments is questionable. As Krishnan explains, “the objectives of war and business are indeed a far cry away from each other.”²⁵⁵ Or at least they should be. This chapter reviews the relationship between private business interests and conflict, and how outsourcing to PMSCs potentially affects the duration of conflict. Additionally, the findings of the research presented in this thesis are reviewed.

The Relationship between Business and War

Historically, businesses’ attitudes towards war have varied alongside perceptions of its effects on profitability. These perceptions vary between and within industries. As Roland Stromberg explains, in the mid to late 1930s, businesses were generally opposed to the US entering World War II. This opposition was born out of industrialists’ “fear of wartime regimentation by an

²⁵⁵ Krishnan, *War as Business*, 142.

Administration they regarded as unfriendly.”²⁵⁶ That such a massive mobilization might induce “war socialism,” or government regulation of, or control over, private business activities was initially of far greater concern than the anticipation of lavish wartime profits. By 1940 it became apparent that these fears were largely unfounded and industrial opposition to the war all but ceased.²⁵⁷ Concerns of “war socialism” were nonexistent preceding the invasion of Iraq, as such a war would not require the total mobilization of the US economy to sustain wartime operations. Whereas Stromberg suggests domestic producers favored the profitable pre-war buildup in anticipation of war over actually being at war, which was still profitable but potentially complicated,²⁵⁸ war is only profitable for contractors operating in conflict environments when it actually occurs.

The notion that, “business corporations act internationally and transnationally, citizens of the world rather than any particular nation-state,”²⁵⁹ may seem limited to its contemporary relevance, however, further investigation illuminates its historical applicability. Businesses have generally prioritized profits over patriotism during war. Consequently, unscrupulous wartime contractors have been objects of congressional inquiry before. Previous congressional committees, notably the Nye Committee and the Truman

²⁵⁶ Roland Stromberg, “American Business and the Approach of War,” *The Journal of Economic History* 13, no. 1 (Winter 1953): 69.

²⁵⁷ *Ibid.*, 72.

²⁵⁸ *Ibid.*, 77.

²⁵⁹ Eric W Otts, “War and the Business Corporation,” *Vanderbilt Journal of Transnational Law* 35 (2002): 555.

Committee,²⁶⁰ focused on the domestic industrial defense manufacturers who produce the weapons of war, not the contractors who use them. Although domestic producers are still prevalent and relevant, contractors operating on-site in the conflict environment, at least in their magnitude, constitute a new industry of business interests.

The Nye Committee investigated American business interests and activities in connection to World War I. Testifying before the US Congress, business executives admitted to raising prices because the government would pay inflated prices to meet urgent wartime demands. The committee found that some American manufacturers' wartime profits neared 90%.²⁶¹ In 1935 the Nye Committee's preliminary report estimated privately produced cruisers cost \$1 - \$2 million more per ship than navy produced cruisers, while the navy lacked personnel sufficiently competent in pricing to properly evaluate bid proposals. The committee suggested the costs associated with the auditing, monitoring, and legal actions necessary to ensure contractors did not over charge or manipulate their financials to gain excess profit, which were apparently common practices, were too high "to justify the continuance of private yards as naval contractors."²⁶² When only a few contractors were capable of production, companies colluded to keep prices high and ensure an agreeable distribution of contracts. Regarding the navy's cruiser program, the committee contended, "if there were no

²⁶⁰ Formally known as the Special Committee on the Investigation of the Munitions Industry and the Special Committee Investigating the National Defense Program, respectively

²⁶¹ *Munitions Industry Naval Shipbuilding - Preliminary Report of the Special Committee on Investigation of the Munitions Industry* (Washington DC: Government Printing Office, 1935), 9.

²⁶² *Ibid.*, 8.

conversations about bidding... there was telepathy.”²⁶³ Although American companies have been characterized as patriotic supporters of the war effort, an ideal that has been applied to American OIF contractors, the record shows the opposite to be true. Businesses have historically acted in their own best interests when the US has been at war, taking advantage of the government’s wartime vulnerabilities when feasible; as such, it should be assumed that OIF contractors are no different.

In the conflict environment, the ultimate goal of the US military is to defeat the opposition and foster stability and peace, while the ultimate goal of a contractor is to fulfill the contract, or as articulated in the letter to Westhusing, “the overriding thought is to make as much money as they can with doing as little work as possible.”²⁶⁴ The longer-term consequences of contractor misconduct, such as inciting discontent and opposition among Iraqi civilians, are not as detrimental to its overarching goals.²⁶⁵ Such misconduct may in fact be economically beneficial for some businesses, as further instability prolongs and increases the need for security services. This is particularly true when oversight is lacking and contractor conduct and performance often goes undocumented.

In analyzing the relationship between business and war, Krishnan concludes that essentially,

business has to be considered a parasite of war. Business is not itself waging war and has no political stakes in war. It rather simply profits from the fact that there is war or its possibility.

²⁶³ Ibid., 18.

²⁶⁴ Anonymous, “Anonymous Letter.”

²⁶⁵ Isenberg, *Shadow Force*, 81–82.

Nonetheless, businesses are integral to war. Private sector products and services are essential prerequisites to waging and sustaining war.

Although businesses are also contributors to post-conflict reconstruction and development, their services as such are predicated upon the need to reconstruct that which has been destroyed through conflict.

Contemporary Connections

Although not initiated by contractors, after war ensued, many have made significant profits from its perpetuation. These companies are politically influential; they make campaign contributions, they have connections with people in the upper echelons of government power, and they employ former military and government officials. Thus, while contractors do not wage war, they nonetheless influence the political system that does.

By employing former military and government personnel, PMSCs capitalize on the connections these individuals have with military and government officials. According to the GAO, in 2006, 52 top defense contractors employed 86,181 military and DOD civilian personnel that had left their government positions since 2001.²⁶⁶ The GAO identified 2,435 as former high-ranking officials, such as DOD “generals, admirals, senior executives, program managers, contracting officers,”²⁶⁷ and personnel in acquisition positions, while 422 or more “could have been working on defense contracts under the

²⁶⁶ Government Accountability Office, *Defense Contracting: Post-Government Employment of Former DOD Officials Needs Greater Transparency*, Report to Congressional Committees (Washington DC: United States Government, May 2008), 4.

²⁶⁷ *Ibid.*

responsibility of their former agency, office, or command.”²⁶⁸ Seven contractors employed 65% of the 2,435 former DOD officials identified in the GAO’s study. SAIC employed 263 of them. SAIC’s contracts principally performed in Iraq totaled over \$191 million between 2003 and 2011.²⁶⁹ L-3 Communications employed 241 former high ranking DOD officials, while the company’s 2003-2011 contracts performed in Iraq totaled over \$1.4 billion.²⁷⁰ Highly decorated retired US Army General Hugh Shelton and former Deputy Secretary of Defense (1995-1997) John White are on L-3 Communications’ board of directors.²⁷¹ These examples do not even scratch the surface of the complex interrelations between government officials and PMSCs. An in depth analysis of these connections is beyond the scope of this research, though these connections are an interesting and under analyzed area for further investigation. Regardless of whether former DOD officials leverage their personal connections to help their private sector employers obtain government contracts, they bring insider knowledge on how the system works, which undoubtedly benefits the contractors that hire them.

PMSCs and the Duration of Conflict

PMSCs are significant actors during war. Their performance affects wartime operations. Consequently, PMSCs impact the duration of war. Upon arriving in Baghdad, retired American judge Arthur Brennan, hired to head Iraq’s Office of Accountability and Transparency (OAT), says, “a senior U.S. Army JAG

²⁶⁸ Ibid.

²⁶⁹ <http://www.usaspending.gov>. Accessed September 2, 2011.

²⁷⁰ <http://www.usaspending.gov>. Accessed September 2, 2011

²⁷¹ L-3, “Board of Directors - About L-3 - L-3,” *L-3*, 2011.

officer” told him “there are people here who would be happy to see this thing last forever.”²⁷² Given the poor management, low oversight, and large amounts of cash in circulation, the environment was very profitable for some contractors, contractor personnel, government civilian personnel, and military officials. It is not surprising these beneficiaries would not want OIF to end.

Silencing the Opposition

TX Hammes contends outsourcing to PMSCs has decreased the ‘political mobilization’ necessary to wage and sustain conflict in Iraq. Without contractors, the military would essentially have to double its personnel in Iraq. The conflict has been sustained without the public support that would be necessary to commit double the troops.²⁷³ Hammes asks, “should we seek methods that make it easier to take the nation to war?”²⁷⁴ This is a consequence of replacing soldiers with contractors whether one considers the government’s use of contractors a deliberate attempt to bypass the public or an unintended byproduct of strategic outsourcing.

Not only do contractors decrease external (public) opposition to war, they may also decrease internal (within military ranks) opposition to war. Going off to war is not what it used to be. Contractors provide many amenities to deployed soldiers. These amenities, such as hot meals made with fresh food, make wartime living conditions better than ever before. According to one KBR employee, living

²⁷² Judge Arthur Brennan, *Contracting Abuses in Iraq: Is the Bush Administration Safeguarding American Taxpayer Dollars?* (Washington DC, 2008).

²⁷³ Hammes, “Private Contractors in Conflict Zones,” 3.

²⁷⁴ *Ibid.*, 10.

standards were better in Iraq (at least for Americans) than in America, comparing bases in Iraq to “upscale American cities.”²⁷⁵ He elaborates,

most people in the states still have no idea what is going on over here. I get offers all the time: ‘Do you need a care package, can we send you some snacks?’... We have... various American fast food outlets, lounges, free internet, coffee shops, and a large PX [that sells... junk food, steaks, etc., etc. – like a Wal-Mart]. Oh yes, and at lunch and dinner they serve Baskin Robbins ice cream out of large tubs, and once a week we get steak and lobster.²⁷⁶

Created and maintained primarily by contractors, such facilities, in addition to other factors such as the extra pay soldiers receive while deployed and the voluntary nature of their service, arguably make war more tolerable for those fighting it.

Counterproductive Contracting

Given the popular opposition to reinstating the draft, the extensive utilization of available military personnel, and widespread government civilian personnel shortages, contractors have been essential to sustaining OIF operations throughout the conflict’s duration. As such, contracted support potentially prolonged US operations in Iraq. At minimum, operations were more extensive than would have been possible without contractors. Meanwhile, contractors have reaped the benefits of such military and government civilian personnel shortages. As many of these contractors are American companies

²⁷⁵ Pratap Chatterjee, *Halliburton’s Army : how a well-connected Texas oil company revolutionized the way America makes war* (New York: Nation Books, 2009), 11.

²⁷⁶ *Ibid.*

utilizing foreign labor, “war in America has become a lucrative business, which, arguably, further diminishes the need for Americans to participate in it.”²⁷⁷

Although profitable for a small minority, the public finances war. As retired (1931) US Marine Corps General Smedley Butler explained, “the cost of operations is always transferred to the people -- who do not profit.”²⁷⁸ Whether wartime outsourcing aggregately lowers the costs of war remains unclear and uncalculated.

Outsourcing reconstruction projects to large American companies was cost ineffective and as their presence provoked insurgent attacks, such contracting potentially prolonged the conflict. This is not to say that “in-house” US military personnel should have necessarily fulfilled these projects or that insurgents would not have attacked US military personnel if they were working on the same projects. However, insurgent groups propagandized contracts awarded to American companies, telling Iraqis “the big American companies are getting rich on your backs.”²⁷⁹ Had such projects been fulfilled by US military personnel, these claims would have appeared much less plausible to Iraqis enduring the hardships of the post-conflict environment. Further, had these contracts been awarded directly to local Iraqi businesses, they may have increased the local community’s investment and participation in the reconstruction effort, perhaps consequently decreasing their toleration or support of insurgent activities that deliberately attempt to destroy it.

²⁷⁷ Adrian R Lewis, “Conscription, the Republic, and America’s Future,” *Military Review* (December 2009): 21.

²⁷⁸ Major General Smedley Butler, “War is a Racket”, 1935, 4.

²⁷⁹ Jay Bachar, “United States Institute of Peace Association for Diplomatic Studies and Training Iraq Experience Project,” interview by Larry Lesser, July 19, 2004.

Conclusions

Outsourcing during contingencies can be beneficial and may result in lower costs, better services, or enhanced capabilities. As when any business, government, or organization outsources, adequate contract management and oversight is critical to ensure outsourcing is indeed beneficial. Although the USG purposively developed and promoted plans to outsource years before OIF began, outsourced support during OIF was largely pursued in an ad-hoc fashion necessitated by military and civilian personnel shortages, rather than out of a concerted and strategic plan. This is evidenced by government civilian personnel shortages, the utilization of military personnel the DOD would not normally deploy alongside repeated and prolonged deployments, and inadequate contract management and oversight. Indeed, contractor personnel have likely outnumbered US military personnel in Iraq for most of OIF's duration.

The costs of outsourcing during OIF remain largely unarticulated, especially as these costs compare to whether such services were provided in-house. The USG does not have a systematic approach or established methods to compare these costs, nor have any significant or extensive attempts been made to appraise them. CBO and GAO security service cost assessments each employ their own individual cost considerations, producing comparisons that do not include comprehensive costs and savings elements. These comparisons are both highly limited in scope, analyzing scenarios within just one service sector.

The USG can potentially lower costs by outsourcing wartime services when pursued through a competitive contracting environment, with effective

management and oversight with relevantly skilled and adequately staffed personnel. However, as has been illustrated by government outsourcing in Iraq, the government can also waste a lot of money without achieving benefits in efficiency or productivity when outsourcing is done through inefficient procedures, without oversight, and by many different agencies at many different levels without coordination or unity of purpose. The lack of a competitive contracting environment in many instances inhibited the government's abilities to obtain the best services at the lowest cost. In some cases the USG had few to no plausible alternative providers to replace poor performing or over charging contractors. This enabled contractors leverage to maximize their profits and take advantage of the USG's unpreparedness and contracting personnel shortages. Further, many military officials involved in DOD outsourcing are opposed to it, while contract costs have been of little concern to military leaders in Iraq. This disconnect between the motivations behind outsourcing and their disregard by officials involved in its implementation inhibits financially beneficial outcomes.

Inadequacies in contracting practices and procedures led to an environment conducive to wasteful, fraudulent, and corrupt practices. The implementation of a reconstruction plan that, in essence, deliberately favored American businesses was ineffective and even counterproductive. In working to reconstitute Iraq's Ministry of Foreign Affairs and facilitate US operations in the early months after the invasion, Ministerial Liaison David Dunford concluded, "there was much too great an emphasis on providing business to U.S. companies and not enough to finding the low-cost bidder or the best company to do the

job.”²⁸⁰ Large infrastructure projects awarded to American companies were unpopular and these project sites became targets of insurgent attacks.

Outsourcing small projects to local businesses proved much more effective than large contracts awarded to big multinational corporations. These small contracts were less costly and more popular.

Utilizing contractors to augment military and government civilian personnel can be both beneficial and detrimental to wartime operations and objectives. Contractors can provide otherwise unavailable skills such as translation, while strategic reconstruction contracting can restore essential services, provide employment, and spur economic growth and recovery. Contractors can bring added skills to the table, but with those skills comes added liabilities for the government waging war. As has been illustrated, wartime outsourcing, when pursued in an ad-hoc, uncoordinated, unmanaged, and uncertain fashion, can result in wasteful spending and provide opportunities for fraudulent and corrupt practices. To what extent, which services, to whom, and at what points during conflict would outsourcing prove most effective remains unclear, and certainly no standardized application could ever be appropriate or effective.

²⁸⁰ David Dunford, “United States Institute of Peace Association for Diplomatic Studies and Training - Iraq Experience Project,” interview by Bernard Engel, August 25, 2004, 11.

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