



The Privatization of National Security

The Rohatyn Center for International Affairs, Middlebury College and
The Woodrow Wilson School of Public and International Affairs, Princeton University
October 9, 2004

Conference Report

Jobs once performed by the United States military are increasingly contracted out to private firms, a trend with broad implications for U.S. national security. That was the message to emerge from *The Privatization of American National Security*, a Princeton Project on National Security conference co-sponsored by the Rohatyn Center for International Affairs at Middlebury College and the Woodrow Wilson School of Public and International Affairs at Princeton University.

Bringing together a distinguished group of academics and practitioners, the conference attempted to shed light on this emerging national security issue. Several themes emerged.

First, although military privatization is not new—mercenaries have existed as long as war itself—privatized security services are an important and growing component of U.S. national security capacity. Private contractors now provide a range of logistics, training and security services, and are typically more experienced and more readily available than traditional military forces. Increasing emphasis on administrative efficiency as well as a growing number of failed states, post-conflict reconstruction projects, and other sub-state security missions are among the key drivers of demand for outsourced services. While participants differed over the desirability of this trend, all agreed that privatization is here to stay.

Second, the conference helped parse the problem by drawing distinctions between combat operations, reconstruction efforts, and stabilization operations, which fall somewhere in between the first two. Less consensus formed around the proper role of private contractors within each category. Most participants agreed that combat was—and should remain—the sole province of the military, and that private actors, both for-profit and non-profit, play a vital role in reconstruction. However, there was disagreement regarding the military's role in reconstruction, and no consensus as to the optimal mix of military and private actors in stabilization operations.

Third, participants emphasized the need for greater collaboration between the public and private sectors in order to improve effectiveness and create synergies. Participants noted

that in some instances outsourcing has amounted to “bidding against ourselves,” exacerbating existing recruiting and retention problems in the armed services. Others cited a fundamental lack of monitoring and oversight to protect against possible abuses by the industry. A broad range of participants recommended that governments work with the industry and other concerned organizations to develop sensible standards for the field. More generally, multisectoral collaboration requires that professionals in the public, non-profit, and for-profit sectors understand one another’s organizational cultures and norms.

Fourth, the participants agreed that the private security industry requires regulation. Insufficient oversight combined with uncertain legal status gives rise to serious accountability issues, which present risks for both governments and the individual contractors themselves. Moreover, the industry sees regulation as a way to legitimize themselves vis-à-vis an often skeptical public.

Last, many participants argued that military privatization challenges traditional conceptions of the relationship between the state and the individual, particularly the notion that only states may use force legitimately. While the participants arrived at few conclusions on these theoretical questions, all agreed that such issues—and the other problems discussed throughout the course of the conference—laid the groundwork for a rich research agenda.

Session I Summary

Following a welcome from Allison Stanger, director of the Rohatyn Center at Middlebury College, the opening session of the conference described some of the drivers of the trends in the privatization of American national security.

Allison Stanger pointed to two historical drivers of the rising demand for the private outsourcing of security services: (1) the increasing sophistication of weapons platforms maintenance requirements, and (2) state collapse following the exhaustion of Cold War superpower rivalry and proxy warfare, and the need to fill certain sub-state security missions in those zones. In addition, there are three ideological drivers. (1) Administrative efficiency has become an American political mantra. (2) American foreign policy relies increasingly on military instruments over traditional diplomacy. (3) Private security contracting is an insurance policy for the pursuit of difficult or controversial national security objectives.

Stanger noted “the extent to which the costs and benefits are in the eye of the beholder.” While foreign policy objectives of the Executive Branch can more readily be engineered, this is a function not overseen in any structured way by Congress, and not significantly monitored on an ongoing basis by the Pentagon. Nor is there clear data that privatization reduces Defense Department budgetary requirements, given the oligopolistic environment and the indeterminate and subjective “cost plus” nature of many contract provisions. Private contracting also substantially raises risks of foreign outrage, because

of abuses that may be committed by exported private security forces whose legal accountability is blurry at best.

Peter Singer distinguished between “military support firms,” the logisticians and Halliburtons, “military consultant firms,” the trainers and advisors, and “military provider firms,” the warfighters. In Iraq, up to 80 firms and more than 20,000 military contractors are operating. The contractors have become a larger share of the fighting force than any other coalition member, and are currently the size of an Army division. Halliburton’s total contracting dollars in Iraq to date – \$13 billion – is alone equivalent to the total cost (in current dollars) to the US Treasury of fighting the American Revolution, the War of 1812, the Mexican-American War, and the Spanish-American War.

Functionally, security contractors train and equip Iraqi forces, and they provide installation security, convoy escort, and bodyguards. But they also provide a host of other unregulated activities that have cumulatively left a moral stain on the American operation in Iraq, from Halliburton’s war profiteering, to torture at the Abu Ghraib prison, where 100 percent of the interpreters and 50 percent of the interrogators were contractors hired by Titan and CACI.

Three oversight dilemmas have arisen: overbidding, suspension of combat zone operations, and individual desertion of vital functions. In addition, contractors do not figure into the public’s or media’s understanding of the military and civilian casualty rates in Iraq’s campaigns, and this runs risks in conjunction with the legal slipperiness of contractor status. For instance, Singer notes, no contractor implicated in Abu Ghraib has even been charged as of October 2004, let alone prosecuted or punished. Finally, contracting causes enormous recruiting and retention problems among specialized units of the uniformed armed forces.

Singer argued that four regulatory changes are overdue: (1) proper accounting and monitoring at the Pentagon; (2) statutory limits on the roles contractors may play – whereas now “the Pentagon has strict doctrine that prohibits contractors in certain roles and yet puts them in those roles;” (3) real budgetary impact studies of the terms of contracts; and (4) stronger legal instruments for abuses and malfeasance. Meanwhile, strong political lobbying and even occasional threats against those investigating the contractor field continue, making policy dialogue difficult.

General Ed Soyster described the history of MPRI since its entry into contracting in 1992, initially as a training and readiness contractor for the US Army, and later as a platform for multinational deployments of military instructors, consultants, and advisors. MPRI’s first major contract overseas was to train the Croatian Army in civil-military relations, but its impact was to allow the Croatian Army to take the Serb-held Krajina during the Yugoslav wars. Thereafter, MPRI was contracted to build the Bosnian Muslim army, and to train the Macedonian, Bulgarian, and Nigerian armies. Other contracts in Angola and Equatorial Guinea fell through because of peace process or human rights conditionality. More recently, MPRI fielded Reserve Officer Training Corps (ROTC) trainers at 217 universities, and set up the forward training base in Kuwait

for newly deploying ground forces. As a driver of privatization trends, Soyster suggests that the upper-rank officer-grade contracting the MPRI can the Department of Defense (DOD) overseas is something that DOD cannot afford to do through the armed forces themselves. An overstretched Army cannot afford to deploy assets like this for overseas train-and-equip functions without seriously undermining the strength of brigade-level command structures in active units.

As discussant, Peter Feaver pointed to loyalty under fire and restraint as the two moral hazards of contracting that seemed to be of greatest concern. This is the case because there are fewer “institutional” dimensions of civil-military control in private contracting, such as appeals to bravery, group loyalty, patriotism, or unit cohesion. The good news is that a legal regime over contractors should work just as well, if not better, than over uniformed militaries, provided the ambiguities in monitoring and defining standards of conduct in the current Uniform Code of Military Justice (UCMJ) and Geneva conventions can be corrected. Feaver contended that those compliance problems we will face are only “problems that are basic to the political control of force, and are not necessarily unique to privatization.”

In Q&A, Anne Marie Slaughter noted that security contracting presents challenges similar to those the government is experiencing across all sectors, namely the recruitment and retention of expert personnel at below-market salaries, under conditions where career responsibilities are becoming increasingly difficult to navigate and enjoy. Soyster suggested that it is an impossible leap to ask a high-level expert to do without the salary advantages of the private sector and that, instead, an in-and-out route could be lived with. Initial recruitment is harder still. Singer responded that family and retirement benefits are key, as well as not overtaxing the armed forces’ operational tempo. Still, we’re “bidding against ourselves,” allowing recruiting firms to hire government workers away from government service, and then bid on contracts at the same bases, filling the same posts that they had been working at in the first place. Brain drain to the private sector is in many instances only coming at the taxpayer’s expense, not in a way that manages the defense budget in a cost-effective way.

In response to Andrew Moravcsik’s comment that this retention problem may be because of “political insulation” rather than skill demand, Singer suggested that the problem lies somewhere in between, in “the lack of looking at the bill itself.” In effect, DOD simply does not monitor the terms of the contract it sets, not solely because of Congressional lobbying, but because of Executive-branch implementation dynamics, because of the foreign policy and managerial pressures it is under.

Deborah Avant observed that in addition, short-term skill set fixes are a ruinous way to correct the capacity of the DOD to respond to long-run skill set deficits. No force or strategy restructuring is taking place in order to fill the mission gaps the Pentagon has been filling with contracting.

Feaver also noted that the Pentagon's personnel management systems are "state of the art 1940s," and that the retention problems will be mitigated if David Chu in the Office of the Secretary of Defense can correct some of these issues.

Session II Summary

Christopher Beese began the session with a view from inside the private security industry. Beese lamented the "sensational" press security contractors have received, noting that such labels as "mercenary" were unhelpful given the central role security contractors now play in military operations, particularly in Iraq. Whereas before such contractors were limited to "tight knit groups of special forces," Beese noted that "today we can be counted in our thousands, each corporate effort equivalent to a battalion, and in total, not simply a brigade, but a division." His own firm currently has 1,500 employees stationed in Iraq.

Despite their growing importance, private security contractors operate in uncertain legal environments with little support or even understanding from governments. For example, Beese noted that many of his employees were unable to bring the military equipment they needed to Iraq and, because they had no uniform, received little respect. He also suggested that the perfunctory nature – or outright lack – of government oversight did not effectively screen capable contractors from less competent ones. This problem is currently driving up costs and reducing contractor effectiveness in Iraq.

Beese contrasted the problems surrounding contracting in Iraq with the relative ease with which contractors had been employed by the United Nations (UN) in Kosovo. There, the UN provided its contractors with equipment and legal status, and helped to legitimize them by including them in the larger "UN family."

Beese argued that governments could learn from the positive contracting experience in Kosovo, and suggested current problems should "be addressed through improved regulation and a policy of positive engagement with our industry."

Complementing Beese's insights from the field with a government perspective, John Hamre began by identifying factors that he thought were driving military outsourcing: a history of close collaboration with the private sector on high technology, the creation of an all-volunteer force, and the disparity between upper-level military salaries and upper-level private sector salaries.

Hamre then considered the role of privatization in three different areas: warfighting, reconstruction, and stability operations. The first, he argued, would never be outsourced, because the military must have absolute confidence in every component of its combat forces. Reconstruction, in contrast, is predominately the domain of the private sector. The military has no expertise in this area, and is used in reconstruction capacities simply because "it is the only thing the government can get its hands on." Stabilization operations are the most complicated of the three, and are likely to involve a mix of military forces and private contractors. Hamre reminded the group that diplomacy has

for years been contracted out to non-governmental organizations (NGOs); if we are concerned about the privatization of defense, we should also be concerned about the privatization of diplomacy.

General William Odom began by identifying a few key problems with contracting, noting that the military has little contracting capacity. He then placed the discussion in a broader historical context, noting the difficulties of state-building in Vietnam and elsewhere. Outsourcing intelligence gathering has been tried, but it doesn't work very well; we should bear in mind, however, that all spies are contracted civilians. The vast majority of intelligence that informs policymaking comes from the media, universities, and think tanks; only roughly five to ten percent comes from the intelligence community.

Doug Brooks followed by highlighting some of the most interesting aspects of the panelists' comments. He put particular stress on the need for proactive government involvement with the private security industry.

Two major points emerged from the question and answer period. First, prompted by a question from Andrew Moravcsik, Beese and Hamre attempted to separate the core issues raised by military contracting from the case-specific difficulties encountered in Iraq and Afghanistan. Referring back to ArmorGroup's experience with the UN and Kosovo, Beese stressed the need for a competent governmental bureaucracy to oversee contracting. Hamre cautioned against drawing generalizable conclusions from Iraq, which he declared a challenge "two to three orders of magnitude" greater than any that have been confronted previously.

Second, Peter Feaver expressed doubt that military contracting could be subject to effective cost-benefit analysis. The problem is that it is impossible to determine a baseline estimate of how much it costs the military to provide security at, for example, an oil field in Mosul. In response, John Hamre noted that when he was the chief financial officer at DOD, cost was never a consideration when deciding whether or not to contract out a function. Instead, the decision focused on determining the best combination of contractors and uniformed officers to get the job done.

Session III Summary

This session was intended to answer questions of the optimal functioning of state versus private enforcement of security objectives, but as Deborah Avant simply remarked, "These are hard questions." The hard optimality question was essentially downplayed as unrealistic, and focus shifted to the second intended consideration, accountability questions in the use of private force by a democratic government.

Nikolas Gvosdev's opening remarks suggested that this accountability conundrum cuts both ways – both in terms of downward oversight of contractors' conduct in zones of conflict, and in terms of upward oversight of the Executive and Legislative branches, against government shirking on long-range strategy and principle.

Deborah Avant noted that, on the one hand, the private sector provides “surge capacity” that the DOD’s manpower policies are ill-equipped to provide – especially, it should be observed, in an era when the ground forces are already facing operational tempo burnout – but at the same time, this surge capacity “does not provide the government with an incentive to go back and figure out, how can we develop a capacity” to field a more appropriate force structure or capacities. Avant in particular noted problems with DynCorp displacing the armed forces’ own policing capacity, which has atrophied since the early post-World War Two period.

Essentially, Avant noted, government bureaucracy will generate transparency obstacles even to the “implementation” of privately contracted policy. Because the Executive Branch is effectively the “sole power” in foreign affairs, contractors gain political insulation against effective legal regulation not only in the decision phase, but also in the implementation phase. (As an instance of this relative insulation, Avant’s data showed that in Iraq, the *New York Times* has been mentioning contractors only once for every four times it mentions uniformed military personnel.) Meanwhile, contracting marks a generational shift in the Executive Branch’s discretion in making national security policy over the previous period, which was shaped by General Abrams’ move toward the “Total Force,” a reservist-constrained military.

Kateri Carmola painted a picture of a regulatory gap that, as suggested by the very term “privatization,” goes beyond that simple intellectual paradigm of tensions in balance of “civil-military control.” She believes that private security actors are representative of a loosening of civic allegiances to government regulation – apropos of Anne Marie Slaughter’s comment in Session I, Carmola notes “a breakdown in [the government’s] ability to call forth the allegiance of its members, in terms of doing the kinds of international endeavors to which most of our best and brightest want to see themselves as contributing.” Carmola therefore implied that contractors should be seen as constraining the government as much as the government is constraining contractors. “Laws and regulations, in order to be effective... must be seen as legitimate to the actor himself” in order to sustain obedience. Effective enforcement can be imposed without consent, but we are a long way from a relationship in which contractors feel “these laws are applying appropriately to them.”

She cited as markers along this ethical trajectory toward the heightened autonomy of the soldier from government (1) the professionalization of the all-volunteer force in the 1970s, (2) the gradual individualization of the soldier, as suggested in the US Army’s recruitment campaign, “An Army of One,” and (3) the rise of special forces operators as the more autonomous teams within the armed forces since September 11th. Even within the uniformed military, then, “you are moved away from the tradition of a conventional military, based on strong norms of group obedience and group honor,” and this worldview “plays into the identity of the operator” who will wind up driving events “on the ground.”

Alex Knott of the Center for Public Integrity, a campaign finance and lobbying watchdog unit, gave the conference participants an overview of the findings from his center’s recent

investigative analysis, “Outsourcing the Pentagon,” a study of contractor political insulation, using a database of the last five years of Pentagon contracts over \$100,000 – comprising \$900 billion in budget allocations and 2.2 million contracts.

First, ten contractors won just shy of 40 percent of all contracts. (Eighty percent of all contracting dollars went to just 737 firms, that is, 1 percent of all contractors.) Meanwhile, 40 percent of all contracts were no-bid contracts. And 30 percent of all contracts set aside for minorities and small business went to companies that received \$100 million or more in contracts during that period. In some instances this may be firms “passing themselves off” as minority and small business contractors, but in other cases, large contractors “sit on the sidelines, and when a multi-year contract for small business is allocated, they will go buy that company, and they will then keep that small business designation for six or seven years afterwards.”

Further, while it is true that no-bid contracts often come about because of scale efficiencies in technology that generate monopoly suppliers, many of these no-bid contracts are increasingly in the area of services, where such considerations should not be as prevalent. (Services have climbed from 40 percent to 60 percent of defense contracting awards.) CPI found that lobbying is a more significant dimension of the way these contractors insulate themselves politically than even campaign finance. Altogether, these contractors have spent \$36 million on campaign contributions, yet the work of just one lobbying firm, PMA, yielded that firm’s 41 clients one-third of total DOD contracting awards.

Charles MacCormack began by reiterating that the emphasis of analysis should first and foremost be on the challenge of initiating and coordinating a better regulatory dialogue among government, non-profit, and business organizations, downplaying until later any more abstract task-specific discussion of a division of labor among service sectors. NGOs have taken up a more active role in educating government and the electorate in operational issues. Hence, there will be a parallel in the rising influence of contractors upon government, rather than simply a rise of government oversight of contractors. The expanding NGO role in operations has meant stronger NGO lobbies, and the lesson for private contracting is, “you can’t separate the level of lobbying activities from the size of the contracting activities.” Government does not unilaterally “decide the specifications, write the contracts, and define what the contractors are going to do – it’s not quite as simple as that, because we all get a chance to dialogue about what those rules and procedures ought to be, so there is some back and forth.”

Furthermore, as the NGO sector has grown, it has become not only more expert about “what’s happening on the ground” than the Executive agencies, it has quite literally been able to set the agenda of the international community’s policy response, as the Gates Foundation does in public health, or the Rockefeller Foundation did with food security a quarter century ago. Today, just six NGOs have \$7 billion in revenue, a sum equal to the USAID budget, and twice the UN development budget. These six have 100,000 full-time staff and two to five million part-time or volunteer staff. We can expect analogous

developments as defense contractor involvement grows, in terms of impact on legislative activity and budget allocations.

The NGO sector also reinforces the allegiance questions that have cropped up in national security, with the humanitarian community employing former government experts who are tired of their personal influence being drained by the bureaucratic discipline of government, by “least-common denominator discussions about earmarking and so forth.” Nevertheless, government – at least compared to the NGO sector, which relies on handouts from other citizens or the government – is more efficient at raising cash. With all its problems, the Internal Revenue Service can raise a dollar for about a half penny on the dollar [\$.005], whereas it costs NGOs about 15 cents [\$.15] to raise that same dollar. Overall, the advantages of the government can be found less in expertise or authority, and more in its operational strengths – primarily the scale of budget it brings to bear on a problem, and its “clout with other governments.”

Andrew Moravcsik’s comments reiterated the difficulty of sustaining an ethical impact on the regulatory game. “We don’t have far-sighted voters. Real world democracies are full of misinformation, apathy, short-sightedness, and biases induced by special interests and bureaucratic politics, and everything we’ve heard suggests that this is an area in which – because of the extraordinary level of expertise, the nature of the service provision – and so on, these problems are extreme. So you really can’t expect electoral politics to do more than get rid of extreme examples of corruption, and maybe even that is impossible.” Market competition does not regulate this industry because of incomplete information and oligopolies – “you literally couldn’t oversee it.” By contrast, interest group advocacy may bring some pressure to bear. And factoring in future contracting careers in the professional inculcation of uniformed soldiers may help elevate the self-imposed values in this industry. As both Avant and MacCormack emphasized, the fix isn’t best directed at the industry proper, but at the health of the state as a mediator of interest group dialogue on this. In particular, Moravcsik noted that retaining government expertise in this sector is probably more important than resources or legal instruments per se.

In Q&A, Anne Marie Slaughter noted that the regulatory problem is not about the optimality of the force mix so much as the process by which a decreasingly restrained force structure is deployed. “The only way to be legitimate is to be transparent,” but currently PMFs are “subject neither to controls at home through Congress, nor to controls abroad through multilateral institutions.”

Avant noted that even contractors will in some important instances be loathe to sort out regulatory problems that they themselves recognize, because it may jeopardize their political standing with government figures who are in charge simultaneously of regulation and of awarding contracts.

Another direction of discussion brought out the impact of the militarization of foreign policy (identified in an earlier panel by Peter Feaver and others) upon the legitimacy of humanitarian goals of US policy, and especially of its agents, the NGOs. MacCormack

in particular noted that, “We rely for 98 percent of our safety on the local population. What causes us problems, is when military forces carry weapons out of uniform and so forth, so that people who are supposed to know who we are, don’t know who we are. We are better off if we maintain this distinction.” MacCormack was particularly leery of private donors sponsoring private interventions for humanitarian or partisan purposes, not because of a sovereign prerogative, but because it would taint the legitimacy of American foreign policy making.

Session IV Summary

The final session of the conference allowed four distinguished generalists to consider the implications of what they had heard throughout the day from a broader perspective.

Anne-Marie Slaughter began by considering what kind of training and leadership will be needed in a world increasingly characterized by multisectoral collaboration. She emphasized that government leaders must be able to successfully interact with both NGOs and the private sector to create synergies between those groups and the government. They must also be able to conduct this kind of convening and coalition-building transnationally.

Next, Ambassador Felix Rohatyn speculated on what might lie in store for the private security industry as it develops. He suggested that the industry is likely to grow, especially in light of the rising gap between senior military salaries and private sector salaries. This growth will likely attract attention from the securities markets, which will in turn lead to greater transparency and accountability in the industry. This process can and should be facilitated by sensible government regulation, especially given the potential for contractors to act contrary to the US government’s interests, as in Abu Ghraib.

Richard Cooper began by providing further historical context, noting that 16th century privateers were, tactically, a highly successful example of military outsourcing. He then drew a distinction between “people who shoot other people” and “people who don’t shoot people but who go into harm’s way” and “people who are never in harm’s way.” He argued that the first should never be contracted out, but saw potential financial savings and efficiency gains in outsourcing the latter two.

These conclusions were informed by his experience with outsourcing in the Navy, which has generated savings of about 30 percent through outsourcing. While not all of this has been passed on to the taxpayer, it has freed significant human resources for combat functions.

Cooper concluded by reminding the audience of Eisenhower’s warning against the military-industrial complex. There may be a danger, he argued, in creating another industry with a financial interest in war. Returning to his 16th century example, Cooper noted how many of the privateers did not return to peaceful activities following the conflict for which they were commissioned, but instead became pirates.

Lee Feinstein identified failed states as a key driver of the “demand” for the kinds of security services offered by private contractors. Because capacity to deal with stabilization operations and post-conflict reconstruction does not exist in the government or at the UN, private contractors have moved to fill in the gap. He noted that the rise of private contractors has led to two seemingly opposed concerns. On the one hand, people fear that private contractors will have so much autonomy and capacity that they will be able to act in ways that undermine US policy. On the other hand, there is the fear that the industry will not grow enough to fill important security needs that government seems unable to provide.

Feinstein closed by identifying three areas in which policy recommendations should be advanced. First, efficiency issues; how and when should private contractors be used? Second, where should post-conflict capacity be located: in DOD, in the State Department, or across a broad spectrum of federal agencies? Last, Feinstein argued that the industry must become more legitimate in the eyes of both domestic and international audiences. He suggested that voluntary codes of conduct may be a useful way to begin such a regulatory process. From the US perspective, it pays to take the lead because then you get to set the rules.

John Ikenberry closed the plenary discussion by considering the ways in which private military contractors challenged key assumptions of international relations theory, such as the role of the state and the nature of warfare. He noted that stability operations increasingly blend traditional inter-state conflict with more domestic-style law enforcement activities. When private actors are thrown into this mix they raise interesting questions regarding the legitimate exercise of force.

In the question and answer period several questions regarding Congressional oversight of the private security industry were raised. Lorelei Kelly expressed doubt that Congress would have the political will to meaningfully monitor military contracting, a view that was supported by Feinstein. Cooper suggested that a Government Accountability Office report may be a useful way to begin building political demand for greater oversight.