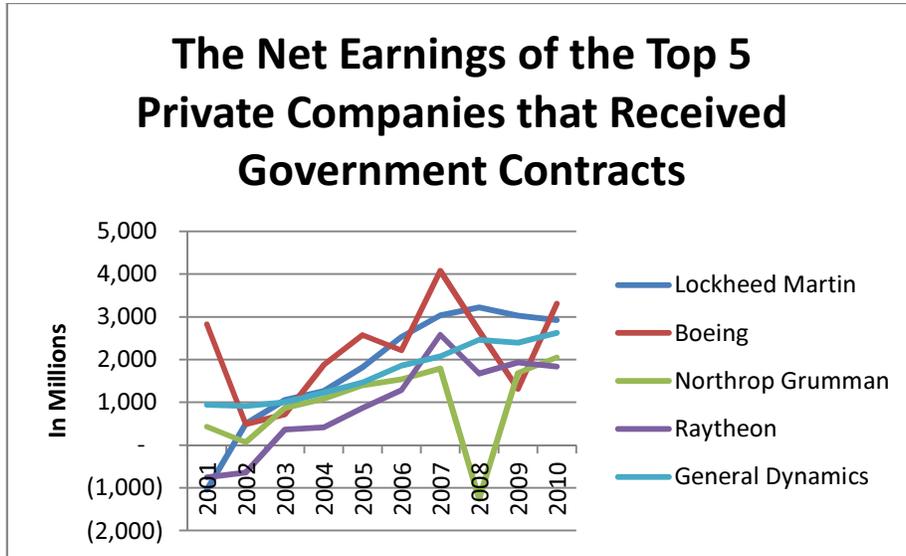




Rein in Profits of Major Pentagon Contractors

In spite of the recession, major military contractors have realized substantial – even excessive – profits throughout the last decade. Spending on procurement from these contractors and others amounted to roughly a trillion dollars between 2001 and 2010.¹ Stock prices of major military contractors more than doubled during this period. Some, such as Halliburton, benefited from billions in lucrative, single-source contracts.² Procurement and contract reform, better accounting methods, and competitive bidding could save billions of taxpayer dollars.



Still Producing Cold War Weapons. It is clear that these companies are benefiting from the wars in Iraq and Afghanistan, indicated by the increase in net earnings from 2001 to present day, but some are still benefiting from the Cold War. The F-22 Raptor, which is largely produced by Lockheed Martin, was originally designed near the end of the Cold War to fight a sophisticated air force that we are no longer likely to face⁴. However, 98 percent of the F-22 Raptors have been purchased by the military in the last decade.⁵ The military now has 187 F-22 Raptors which they consider one of the best fighter jets ever produced despite the fact that it has not seen combat and it is unlikely that it ever will since it was officially grounded due to operational problems⁶.

The Percentage of Sales Generated from the U.S. Department of Defense and the Size of the Contracts for 2010		
	% of Sales to the DoD	Contracted for the Year In Billions
Lockheed Martin	60%	\$ 35.9
Boeing	82%	\$ 19.4
Northrop Grumman	92%*	\$ 16.47
Raytheon	88%*	\$ 14.9
General Dynamics	63%	\$ 14.8

*This is a composite parentage of sales to the U.S. Government. The exact percentage sold to the U.S. Department of Defense alone was not given in the 2010 Annual Report. However, based on thorough reading it can be presumed that sales are largely to the Department of Defense.

Parasitic Relationship. The top five contractors share a major similarity; their largest customer is the U.S. Government. Their U.S. government contracts amount to billions of dollars each year. However when it comes time to return the favor in the form of taxes most of these companies pay a much lower tax rate than the 35 percent official corporate tax rate, as shown in the chart below. Boeing even receives a tax refund!⁷

Effective Tax Rate and Taxes Paid by Largest U.S. Department of Defense Contractors									
In Millions	2008			2009			2010		
	Profit	Tax	Rate	Profit	Tax	Rate	Profit	Tax	Rate
Lockheed Martin	\$ 4,522	\$ 1,302	28.8%	\$ 4,246	\$ 650	15.3%	\$ 3,794	\$ 589	15.5%
Boeing	\$ 3,791	\$ (39)	-1.0%	\$ 1,494	\$ (136)	-9.1%	\$ 4,450	\$ (3)	-0.1%
Northrop Grumman	\$ 2,438	\$ 688	28.2%	\$ 2,140	\$ 525	24.5%	\$ 2,548	\$ 482	18.9%
Raytheon	\$ 2,360	\$ 206	8.7%	\$ 2,806	\$ 669	23.8%	\$ 2,699	\$ 205	7.6%
General Dynamics	\$ 3,074	\$ 821	26.7%	\$ 2,927	\$ 715	24.4%	\$ 3,146	\$ 936	29.8%

Solution. In response to the suggestions of the Commission on Wartime Contracting in Iraq and Afghanistan⁸ Senators McCaskill and Webb introduced the Comprehensive Contingency Contracting Reform Act of 2012 (S. 2139) on February 29th, 2012. This legislation establishes an Inspector General will be the lead for oversight and require submitting a bi-annual report about all the activities engaged in during contingency operations, including contractors. Departments that are engaged in contingency operations would have to relay detailed Annual Reports that say how many contracts, the value, the level of completion, and the number of personnel involved. It would also establish an independent suspension and debarment official to deal with contractors who have been criminally charged or failed to pay the government any amounts owed. Also contracts would be limited to three years for competitive bid contracts and one year for non-competitive bids. Annually the Department of Defense and State will be required to conduct a work review of the contractors to determine if it is “appropriate and necessary”. The bill would also establish a database on pricing to help with better cost analysis. It would require that any contracts with the U.S. Government consent to the jurisdiction of the U.S. District Court for the District of Columbia and full disclosure of the contractor’s parent company, subsidies, or successor would be required⁹.

¹ Russell Rumbaugh, Stimson Center, “What We Bought: Defense Procurement from FY01 to FY10,” October 2011 <http://www.stimson.org/research-pages/what-we-bought-defense-procurement-from-fy01-to-fy10/>

² Harvard economist Linda Bilmes and Nobelist Joseph Stiglitz, The Three Trillion Dollar War. Interview notes at <http://www.npr.org/templates/story/story.php?storyId=87855957>

³ Annual Reports 2003-2010 of Lockheed Martin, Boeing, Northrop Grumman, Raytheon, and General Dynamics

⁴ Lee Ferran. “\$77 Billion Fighter Jets That Have Never Seen Combat Now Grounded Indefinitely” May 2011 <http://abcnews.go.com/Blotter/77-billion-22-raptor-fleet-grounded-indefinitely/story?id=13545306#.T15KI3l2PSg>

⁵ Russell Rumbaugh, Stimson Center, supra.

⁶ Stephen Trimble. “Oxygen systems concerns prompt F-22 stand-down” May 2011 <http://www.flightglobal.com/news/articles/oxygen-system-concerns-prompt-f-22-stand-down-356332/>

⁷ Robert S. McIntyre, Matthew Gardner, Rebecca J. Wilkins, and Richard Phillips, A Joint Project of Citizens for Tax Justice & the Institute on Taxation and Economic Policy, “Corporate Taxpayers & Corporate Tax Dodgers 2008-10” November 2011 <http://www.ctj.org/corporatetaxdodgers/CorporateTaxDodgersReport.pdf>

⁸ Commission on Wartime Contracting in Iraq and Afghanistan. “Transforming Wartime Contracting: Controlling costs, reducing risks.” August 2011 http://www.wartimecontracting.gov/docs/CWC_FinalReport-lowres.pdf

⁹ Neil Gordon and Jake Weins. “McCaskill, Webb Introduce Wartime Contracting Legislation that Could Save Taxpayers Billions.” March 2012. <http://pogoblog.typepad.com/pogo/2012/03/mccaskill-webb-introduce-wartime-contracting-legislation-that-could-save-taxpayers-billions.html>

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