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The Defense Industry's Role in Militarizing US Foreign Policy

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As the welfare state shrinks, one of the last sure bets for big government spending is the maintenance of the warfare state. As the global coronavirus pandemic has made incredibly clear, the US government is disinclined to pump federal resources into health programs, social insurance or food security infrastructure. But even this unprecedented pandemic and a string of the largest single-day job losses in US history have not tempered the appetite of the political and economic ruling class for ruinous levels of war expenditure.

Airmen wheel three GBU-35 GPS-guided bombs on the flight deck of the USS Abraham Lincoln aircraft carrier in the Gulf, February 23, 2003. John Schults/Reuters

Appended to the Congressional HEROES legislation to fund payroll for shuttered businesses was a provision designed by a defense and intelligence contractors' association to expand coverage beyond payroll to include nearly any of those firms' expenses. The legislation amounts to a bailout by taxpayers of the entire private sector defense and intelligence industry—one large contractor estimated that their request for funds would be around $1 billion. It is precisely such features of the military industrial complex in the United States—the bailouts, the subsidies, the profit guarantees, the federally-backed export insurance, the research and development funds—that have made the sector so lucrative.

Defense industry profits do not simply disappear into the pockets of executives and shareholders. They are deployed strategically to build support for a highly militarized form of US foreign policy. Their methods are diverse, and formal lobbying through registered agents is just the tip of the iceberg.

> **Defense industry profits do not simply disappear**

Defense firms finance think tanks and research agendas to provide policy papers for legislators and their staffers who are arguing for military intervention; they place their executives and allies on the

National Security Council and other agencies via formal industry exchange programs; and they use their privileged regulatory position to steer the priorities of finance capital in the direction of investing more money in weapons technologies. The frequency of US wars and the fortunes of the weapons industry move in tandem; as the industry has become unassailable and immune to demands for belt-tightening or rationalization, so the United States finds itself in a state of forever war. Severing this deadly linkage, which has brutalized those abroad while immiserating Americans at home, is key to winding down the US imperial project.

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The only way to cut that cord is to nationalize the military industrial sector, which would disconnect industry profits from processes of policy making, redirect private investment away from military technologies, turn research and development towards civilian applications, enhance transparency and allow for greater public accountability around questions of war and peace.

The False Promise of Leverage Through Arms Sales

Status quo commitments to the defense industry hinge on policy justifications linking arms sales and US interests. In the 1970s and 1980s, as American weapons sales to the Middle East began their stratospheric ascent, Congress expressed fears that Arab recipients would use them against Israel. The Carter Doctrine's promise of a Rapid Deployment Force that could move to the Gulf in times of threat, however, allowed massive weapons sales—to Saudi Arabia in particular—to be characterized as prepositioned equipment that would ultimately be used by US, not Arab, soldiers.

As the Rapid Deployment Force concept gave way to permanent US basing and direct interventions in the Gulf, the policy argument for massive arms exports shifted. The new claim was that these sales gave the United States leverage over regional outcomes, both political and military. Such narratives are demonstrably false. Not only have decades of American arms sales, training and service now birthed Gulf military forces capable of (and increasingly eager to) wield their high-tech weapons, but the imagined leverage these sales were to have generated is glaringly absent. Despite the dependence of Saudi Arabia and the United Arab Emirates (UAE) on US and British weapons (and spare parts) neither has demonstrated any restraint in their assault on Yemen, despite public protestations from both exporters. The two largest regional recipients of free weapons (Egypt and Israel), presumably the most dependent on US weapons and therefore most likely to cave to US demands, have flagrantly violated the most basic desires of the US foreign policy establishment: maintaining lines of contact with the United States during the uprisings in 2011 and the coup in 2013 in Egypt, and putting a halt to new illegal Israeli settlements.

The reality is, after decades of flooding the globe with weapons, their export is thoroughly routinized. Threats to withhold weapons are pretense at best: The networks formed between the executives of private firms and the officials and intermediaries in major purchasing countries are so dense and well-developed they can easily mobilize the necessary political and financial resources to overcome potential opposition to specific arms transfers. In the rare case of a ban, either the language is conceived so narrowly as to have little or no impact, another supplier quickly steps in to resume supply (as Australia recently did when Britain instituted a ban on granting new weapons licenses to the Gulf countries bombing Yemen) or the physical and legal structures meant to block transfers are easily circumvented. Major exporting countries are so desperate to subsidize their own domestic industries that they often compete to offer better financing terms to even the most abusive governments.

The argument that weapons exports are a strategic military choice that allows the exporter to influence outcomes without deploying their own troops is farcical. First, the United States has troops in 150 countries, including 70,000 in the Middle East and Afghanistan, so weapons sales are not replacing boots on the ground. Second, the smuggling and proliferation of US weapons in conflict zones where they end up being a force equalizer in the enemy's favor suggests that flooding a place with weapons is (if anything) a basic tactical error that somehow gets repeated ad nauseum. Even in the hands of trusted regional allies like Jordan, US weapons (supplied by the CIA) have been used directly in attacks on American personnel.

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If arms sales are not a policy tool designed to provide leverage or influence, what are they for? The short answer is that they are for profit. The linkage between war and profit is direct and clear. For example, in the 24-hour period after the US assassination of Iranian Maj. Gen. Qassem Soleimani, the stock holdings of just five individual weapons industry executives increased by $7 million. Multiply this number by tens of thousands of executives and shareholders spread throughout the industry and it is clear why there are an enormous number of white collar professionals committed to a militant US posture that serves their own professional and personal livelihood.

Defense Industry Financing of Pro-War Policy Research

The defense industry's enormous appetite for consultants and marketing services has spawned a collection of complementary industries such as business intelligence analysts, industry journalists, niche financial advisors, and organizers of arms fairs and industry conferences. These businesses exist to service defense firms: to market them, to promote their products, to facilitate their growth and expansion.

The industry's greatest asset, however, is the vast troves of seemingly independent research that supports interventionist foreign policies and loose weapons export regimes. Foreign policy and military policy intellectuals, and the think tanks they staff, form an extensive infrastructure interwoven with the global military-industrial complex, which has a dramatic impact on US foreign policy. Twelve of the 25 most-cited US think tanks receive big money from weapons manufacturers.[1] The security justifications produced by these researchers and the weapons industry's drive for profit are mutually reinforcing.[2] Most Washington, DC-based think tanks like the International Institute for Strategic Studies, the Brookings Institution, the Center for Strategic and International Studies and the Arab Gulf States Institute, produce material that promotes an aggressive foreign policy. Consider the Center for Security and International Studies (CSIS), one of the leading foreign policy think tanks in the United States: Among its 17 largest donors are six of the largest weapons makers (Northrop Grumman, Lockheed Martin, Boeing, Raytheon, SAAB AB and Huntington Ingalls, the largest military shipbuilder in the United States).

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Even donors that do not initially look like defense firms are often financial firms with major interests in the defense industry: Starr Insurance is one of the largest insurers of US military contractors and other US government personnel operating overseas and Duquesne Family Capital LLC (run by infamous hedge fund manager Stanley Druckenmiller) has at various points held significant stakes in major defense firms. A scroll down the list of smaller tier donors reveals most of the rest of the military industrial complex, including General Dynamics, BAE, Bell Helicopter, Airbus and Thales.

The major think tanks draw their research fellows overwhelmingly from the national security establishment, where they have spent years cultivating ties with industry. These ties directly impact the research they produce, which directly impacts the policies that are implemented. Take a recent example: the above-mentioned CSIS authored a report sponsored (paid for) by the Aerospace

Industries Association, the defense industry's largest lobby group, on the status of the US defense industrial base. The CSIS report states, "the number of prime vendors declined from an average of approximately 78,500 to 61,700" between 2011 and 2015, driven (they assert) by sequestration and slower growth in defense spending.[3] This finding percolates through specialized defense industry media until it reaches the mainstream (in this case *The Wall Street Journal)* where it becomes, "Cuts to US military spending…contributed to an estimated 17,000 US firms leaving the industry between 2011 and 2015."[4] The report itself, however, states that, "due to the limitations in the subcontract database, CSIS cannot say whether these companies have exited the industrial base," meaning they could have changed their name, merged with a competitor, incorporated in a different country, been assigned a different industrial code (so they would no longer show up in the relevant database), been acquired by a larger firm or dropped their civilian production lines and become smaller to focus only on defense items.

For an industry lobbying association, the cost of financing a think tank report is peanuts compared to the payoff of getting your biased narrative into the major dailies and in front of the eyeballs of policymakers and their staff members. The fact that a large organization like CSIS with substantial resources and personnel that specializes in researching the defense industry cannot even disentangle corporate filings and government statistics to make a more declarative statement about the fate of these firms also hints at decades of industry efforts to deceive, inveigle and obfuscate, making it impossible for critics of militarism to muster truly comprehensive figures.

Major customers of the US defense industry also finance think tanks to help promote looser export regimes. In 2016 the UAE paid $250,000 for a policy paper at the Center for a New American Security (a major liberal think tank) that argued for loosening the Missile Technology Control Regime that prohibited the export of sophisticated drones to the UAE. Two months after the paper was released, a bipartisan group of House members wrote to President Trump pressing him to approve the UAE drone sale, using the same arguments cited in the paper. Language is often cribbed directly from literature produced by lobbying groups and reproduced in the statements made by elected representatives and the content of the legislation they pass, yet another marker of the blurred lines between the fortunes of private business and the careers of public officials in the United States. It also begs the question, if industry groups (directly or indirectly) are dictating the terms of policy, why bother electing representatives in the first place? In order to devise a democratic and accountable foreign policy it is necessary to divorce questions of war from questions of executive compensation and shareholder dividends, through processes of nationalization as outlined by Pete Moore elsewhere in this issue.

Like defense firms, the Gulf states spend large sums to influence political campaigns and are major donors to US think tanks, providing over $85 million to nine such organizations between 2010 and 2017. Most of these funds were disbursed to deflect criticism of the Saudi-UAE bombing campaign in Yemen and to undermine the Iran nuclear deal. This financial support partly explains the limited opposition to the war on Yemen from establishment US foreign policy circles and Congress (until the Saudi government murdered journalist Jamal Khashoggi in October 2018), as well as the promotion of new weapons exports and defense programs. Other states, including Libya, Syria, Tunisia and Egypt, retain highly-paid lobbying firms to plant op-eds in American newspapers, secure private meetings with influential government officials and fund friendly policy memos, often in anticipation of opposition to big defense export deals—another way that government policy and spending patterns are shaped by the arms trade and military prerogatives.

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Well-funded think tanks—such as the Foundation for the Defense of Democracy (FDD), a hard-right neoconservative think tank—can even bankroll their experts directly into the executive foreign policy apparatus. As reported by the Institute for Responsible Statecraft, Richard Goldberg, one of the National Security Council's most outspoken Iran hawks, sat on the council while his salary and partial expenses were paid by FDD. Nor is this an isolated incident, as researchers from similar organizations, such as the pro-Israel Washington Institute for Near East Policy (WINEP), also make rotations onto the council. Overlap of this kind is not surprising, given the formal institutionalization of the revolving door between the private sector and government through legislation like the Intergovernmental Personnel Act, meant to loan industry and academic experts to the government on a temporary basis. Nonetheless, the bias of the program is clear, since the Department of Defense has four such exchange programs directly funneling personnel into its units, while other major agencies with equally complex scientific and technical mandates (such as the Department of Energy and the Treasury) have only one such dedicated program.

Financialization and Globalization Enhance the Defense Industry's Reach

In addition to its enormous political clout, the ability of the industry to dictate US foreign policy and steer it in a militant direction has grown dramatically as a result of structural changes in the global economy, notably the globalization and outsourcing of production and larger patterns of financialization. The formation of a global arms market has driven competition and salesmanship to new heights, generating the proliferation of weapons and technologies through sales strategies like offsets, licensing, arms fairs, leasing arrangements and other forms of promotional financing, military assistance programs, technology transfers and even programs to establish new defense engineering departments in overseas universities. At the same time, the explosion of the homeland security industry and intelligence gathering has militarized much of the global data industry: Civilian data firms have become key actors in intelligence gathering operations (going back to ChoicePoint in Operation Condor) and defense firms regularly acquire civilian data firms to integrate into their own operations.

Despite the industrial nature of weapons production, financialization has greatly enhanced the reach and influence of the industry. As global inequality has grown, the share of capital controlled by the ruling class has exploded, and with it have appeared new forms of securitization and avenues for investment. The number of private equity and venture capital firms specializing in the defense sector is expanding. Firms like Veritas Capital, Civitas Group, Arlington Capital Partners, Behrman Capital and Paladin Capital specialize in investing in defense startups (or steering civilian tech startups to apply themselves to more militant pursuits), providing investment capital to fuel growth in weapons development and steer even more private dollars into the military sector.[5]

Venture capital firms have been particularly active in areas like financing state surveillance projects in the Gulf and developing machine learning (or AI) for weapons systems. The largest weapons firms also have their own corporate venture capital arms, like Boeing's HorizonX. Most private equity firms combine the marquee names and government contacts of high-ranking military and national security retirees with veteran investment bankers who use their rolodexes of rich clients to raise capital for new funds designed to invest in security enterprises. The structural phenomenon of financialization has thus combined the enormous wealth of the ruling elite with the enormous contracting budgets of the Pentagon and the Department of Homeland Security to drive the further militarization and securitization of US economic activity.

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Despite the contraction of the welfare state and other global harbingers of increasing poverty, there is an enormous amount of fictitious capital circulating in the global economy desperately seeking to transform into something concrete. The expansion of the militarized economy in the United States makes the defense industry an ideal destination for this footloose capital and a sure bet for profits because of the merging of public and private interests around continued military interventions abroad.

The near constant refrains about primordial conflicts, biblical animosities and inexplicably enduring violence that surround most mainstream commentary on the Middle East feed into this vortex, drawing ever more capital into the sector. Consider the case of the CIA-funded venture capital firm In-Q-Tel, which was co-founded by a former Lockheed CEO and which works to identify technologies that give the agency an edge in global intelligence gathering. For every $1 that In-Q-Tel commits to a startup, it attracts much more in additional private investment from firms and wealthy investors; the ratio was $1:$8 as early as 2006 and has no doubt increased since then. Such ability to leverage investment not only steers firms in a more securitized direction (in terms of their products and services) but also siphons money away from sectors that do not have security applications, like civilian infrastructure.

The intersecting of the financial class with the military establishment ensures a steady delivery of investment in militarized technologies and high returns for finance capital from continued US commitment to a highly militaristic foreign policy—with terrible results for populations targeted by the US war machine. This symbiosis produces a narrow foreign policy agenda dominated by military solutions. The militarization of finance capital (and the increasing importance of finance to the military industrial sector) is facilitated by weapons producers' political influence, itself made possible by the profitability of their industry. Consolidation driven by mergers and acquisitions has led to enormous firms with substantial capital assets and extensive political networks. Their high profits come from a range of sources, including the simple act of price inflation. Many weapons export contracts include so-called offsets, as well as consultancy fees that together exceed 50 percent of the overall contract cost. There is no way a company can pay out 50 percent of its revenue on a sale unless the asking price is orders of magnitude higher than the production cost. Contract mechanisms like cost-plus arrangements that guarantee a minimum level of profit (regardless of cost overruns or mismanagement) likewise contribute to high profits, as do the enormous public subsidies enjoyed by these firms. Nationalizing the defense industry would mean the revenue would be re-invested (in technological development, for example) or added to general government revenues to be spent on non-defense priorities, instead of being used to promote war.

The reliability of the US war machine since the attacks of September 11, 2001 has meant high levels of investor optimism about growth of the military industrial sector, ensuring companies are able to access easy financing and other forms of support to initiate new projects, start consortiums, form new partnerships, establish new subsidiaries, open overseas sales offices and form corporate venture capital units. Global investment funds and wealth managers are not ignorant of the benefits their clients receive from investing in weapons firms. Public funding that continually expands the defense sector perversely guarantees these private returns. How else could defense stocks realize extraordinary rates of return—the S&P Aerospace and Defense index delivered 16.4 percent annualized returns between 2008 and 2018, compared to 11.2 percent for the S&P overall—with never a whisper of a weapons industry bubble? The answer is simple: because bubbles must have the potential to burst and the military industrial complex does not.

When times are tough, as they are now during the COVID-19 pandemic, public bailouts of military industrial giants are deemed axiomatic. In fact, they operate even in the breach: the US federal reserve spent so much on buying up corporate debt during the pandemic that firms like Boeing were able to raise extraordinary amounts in the private bond market. Investors clearly sensed that the firm was a safe bet, despite software glitches on its new 737 Max jet that killed 346 passengers in two separate crashes and a liquidity crisis caused by spending all its reserves on stock buybacks to increase shareholder returns. As larger sums of public dollars flow to defense budgets, the sector attracts even more private capital, which contributes to the industry's growth, which makes it "too big to fail," which attracts more capital, and on and on.

Many factors contribute to both the industry's growth and the continuation of a militaristic foreign policy. The flip side of driving investment into the industry is starving its opponents and the overseers of resources. The revolving door (and significant salary differentials between the public and private sector) complicates the government's ability to maintain skilled contract managers in the Pentagon, which is reflected in all the logistical and managerial failures that have plagued large weapons programs. Weapons firms should not be left to self-regulate, monitor the destinations and end-users of their products and perform other basic oversight functions. Firms and their allies have lobbied hard for the reduction of what they deem government red tape, which has led to government contract managers who are not well compensated or well trained and are at a severe disadvantage vis-à-vis the industry they are meant to oversee. The industry's high profits enable firms to siphon off top talent that is put to work helping them sidestep regulations, secure preferential treatment and gain access to top elected officials. Individuals in government positions frequently soft-pedal, delay or reject any policy that would be detrimental to these firms because they often hope to leave their modest public sector job for a future corporate one. The result is the shifting of more and more oversight of programs and policies to the firms themselves.

Budgeting for War, Indefinitely

Beyond hawkish think tanks and structural changes in the economy, there are many spending and budgetary practices that promote the continuation of existing wars by further embedding private profit in the decision-making process. Being in a constant state of war necessarily uses up stockpiles of existing weapons, and defense profits come disproportionately from adding additional production runs of existing weapons. The process of designing and building new weapons systems (not just minor modifications) that will not be fed directly into existing stockpiles, by contrast, is riskier and less profitable. Firms thus spend money on research and lobbying to promote looser export regimes and hawkish policy on existing conflicts because both ensure continued demand for weapons already designed and in production. And it is not only the declared wars whose battlefields are stocked with weapons. The large numbers of US overseas bases and forward deployment sites often have their own stockpiles, which can (unsurprisingly) influence officials who are deciding whether or not to launch a new US military intervention nearby.

An additional mundane practice that promotes and perpetuates war is the design of budgeting under conditions of war—mainly how Overseas Contingency Operations (OCO) interact with the normal defense budgeting process. Actual defense priorities can be moved into the OCO budget, which funds the global war on terror, making more room in the normal defense authorization process to pay for things that are not necessary, like additional production runs of weapons systems that will keep firms' assembly lines humming but have not been requested by any of the uniformed military service branches.

Current conflicts also act as laboratories to facilitate the use of emerging weapons technologies that exacerbate tensions and produce new rounds of fighting. Such test runs are often less about performance and more about publicity, as they garner significant media attention but often lack a tactical purpose. Two examples are the use of the Massive Ordnance Air Blast Bomb (MOAB) in Afghanistan to target a small number of ISIS fighters and when Israel became the first air force to fly Lockheed Martin's F-35 in combat. When allies like Israel, which carries out regular military operations in Palestine, Lebanon and elsewhere in the region, publicly use new weapons systems, their actions can drum up additional commercial interest and further solidify the relationships between major firms and their biggest clients. In this case, the jet was used in Gaza against Hamas, which does not even possess radar or air defense systems (much less its own air force) so it was tactically pointless. But it did terrorize Palestinians and increase tensions on the ground—and its maiden voyage was widely reported in defense industry dailies.

Where to Go from Here?

By recognizing that industry profits help drive the war machine, the question then becomes how to remove those profits from the foreign policy equation. If driving profits into shareholder dividends and executive pay were less of a priority because defense companies were publicly owned, many of the perverse incentives for continued war would be short circuited. A policy of nationalizing the defense industry would remove the linkage between profit and policy, but it would also have additional upsides, like encouraging more research that has civilian applications. So-called cost plus contracting, for example, which is dominant in defense procurement and incentivizes keeping costs high, prevents spillover of technologies into commercial industry where the impetus is to develop low-cost technologies that are affordable to average consumers.

Nationalization would also mean greater transparency since the industry could no longer use claims of proprietary information to obscure much of its inner workings (including details that have absolutely nothing to do with sensitive technology, like what percentage of a specific weapons system is produced in overseas factories). Currently, the information needed to track the industry's global supply chain or allow for independent oversight of procurement spending is either classified or so opaque as to defy systematic examination. Public control and greater oversight would inaugurate political processes and pressures that can help put non-military solutions on an equal footing.

In this environment, military spending can be properly framed as an opportunity cost: for example, how many hospital beds and ventilators are worth one F-35 sitting in a hanger in Germany? Highlighting the disparities in funding for war versus funding to protect human life, especially during the COVID-19 pandemic, could become a routine budgetary conversation with decidedly unroutine effects on the continuation of the US imperial project.

[Shana Marshall is associate director of the Institute for Middle East Studies and assistant research professor at The George Washington University and a member of MERIP's editorial committee.]

Endnotes

[1] General Electric supports 11; Boeing and Lockheed Martin each support six; Northrop Grumman four; and Raytheon three. They are often among the top tier contributors. See Rick Carp, "Who Pays for Think Tanks?" *FAIR*, July 2013.

[2] Gillian Rich, "Defense Stocks Rally as US Exit from Iran Deal Adds to Mideast Tension," *Investor's Business Daily*, May 9, 2018.

[3] CSIS, "Measuring the Impact of Sequestration and the Drawdown on the Defense Industrial Base," January 22, 2018, p. 78-79.

[4] Doug Cameron and Ben Kesling, "Defense Contractors Join Forces as Pentagon Spending Slows: Merger of United Technologies, Raytheon Underscores Consolidation That Has Seen 17,000 Firms Pull Out," *The Wall Street Journal*, June 11, 2019.

[5] M. Asif Ismail "The Sincerest Form of Flattery: Private equity firms follow in Carlyle Group's footsteps," The Center for Public Integrity, May 14, 2014.

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