

Senate Democratic Policy Committee
Oversight Hearing on Iraq Contracting Practices

WILLIAM HARTUNG
World Policy Institute at the New School

February 13, 2004

“Only an alert and knowledgeable citizenry can ensure the proper meshing of the huge industrial and military machinery of defense with our peaceful methods and goals, so that security and liberty may prosper together.”

■ President Dwight D. Eisenhower
Farewell Address to the Nation
January 17, 1961

Introduction: Iraq and the Hidden Costs of War

Thank you for providing me with the opportunity to address this committee this morning. Although much of my testimony will deal with Halliburton’s role in Iraq, its implications go far beyond one company or one conflict. As taxpayers and as citizens of this Republic, we need to determine how best to provide effective support for our men and women in uniform, at a reasonable cost, with transparency and accountability. That’s true whether we are talking about Iraq, or Afghanistan, or the Philippines, or Colombia, or Kosovo, or Liberia, or anywhere else we send American military personnel on short notice to face down tyrants or keep the peace.

Wars are costly undertakings. They almost always cost more than government officials claim they will. Yale economist William D. Nordhaus has suggested that governments have an incentive to understate the costs of conflict because “If wars are thought to be short, cheap, and bloodless, then it is easier to persuade the populace and

the Congress to defer to the President.”¹ As Robert Hormats, the Vice-Chairman of Goldman Sachs International, observed during the run-up to the current war in Iraq:

History is littered with gross underestimates of the cost of war. Lincoln originally thought the civil war could last 90 days. His Treasury told him it would cost \$250 million. It lasted four years and cost \$3.3 billion. The First World War was originally forecast to be short and inexpensive. The Vietnam war cost 90 percent more than forecast.²

Even conflicts that appear at first to be relatively “cheap,” like the 1991 Persian Gulf War, often end up having substantial hidden, long-term costs. In that conflict, the bulk of the \$76 billion in direct war costs were paid for by U.S. allies, and U.S. combat deaths were relatively low, at 148 personnel lost. But more than a decade later, U.S. taxpayers are absorbing billions of dollars in costs for treating the service-related injuries and disabilities of the veterans of that conflict. More than one-third of the veterans of the 1990/1991 Gulf War – over 206,000 in all – have filed for service-related disabilities, and as of early 2003, more than 159,000 of those claims had been approved. This extraordinary “postwar casualty rate” puts the lie to the idea that the first Gulf War was either a cheap or easy victory.³

Likewise, when former White House economic advisor Lawrence Lindsey suggested to the Wall Street Journal in September of 2002 that a U.S. intervention in Iraq could cost about 2% of our Gross Domestic Product – roughly \$200 billion – the White House quickly dismissed his estimate. A few months later, they also dismissed Lindsey

¹ William D. Nordhaus, “The Economic Consequences of a War With Iraq,” in War With Iraq: Costs, Consequences, and Alternatives (Cambridge, MA: American Academy of Arts and Sciences, 2002), pp. 78-79.

² From Robert Hormats, “America Must Find the Money to Afford a War,” Financial Times, January 28, 2003. For an extended version of the arguments in this section, see William D. Hartung, The Hidden Costs of War, Fourth Freedom Forum, February 2003, available at www.fourthfreedom.org.

from his post as White House economic advisor. Roughly a year and one-half after Lindsey made his prediction, and less than a year into the war in Iraq, his rough guess is beginning to look like a gross *underestimate* of the cost of intervening in Iraq. To date, U.S. taxpayers have committed roughly \$180 billion to the buildup to war, the overthrow of Saddam Hussein's regime, and the ongoing occupation and rebuilding effort in Iraq. That doesn't count the costs of "buying allies" through special aid and trade deals, or any projections forward of how long we may have "boots on the ground" in Iraq. And I don't need to tell any member of this Congress that you should not expect this administration to be forthcoming about these future costs. They are going to pretend they don't exist, or let them out in dribs and drabs.

Needless to say, there are no realistic projections of the costs of the wars and occupations of Iraq and Afghanistan in the FY 2005 budget documents that were submitted to Congress recently. The biggest source of the underestimate in the case of this war was the notion among some in this administration that the war would be a "cakewalk," and that once Saddam Hussein's regime had crumbled, building a functioning democracy in Iraq would be a relatively straightforward, inexpensive affair. In fact, Deputy Secretary of Defense Paul Wolfowitz and AID administrator Andrew Natsios cited figures as low as \$1.5 billion for Iraqi rebuilding, on the theory that most of the funds could come from the sale of Iraqi oil. This is particularly ironic when we consider that some of the charges of fraud and abuse relating to Halliburton have to do with overcharges in the *importation of fuel* into Iraq – a classic case of bringing coals to Newcastle, as it were. If Iraq's oil infrastructure had been up and running as quickly as

³ For updated statistics on this point, consult the web site of the National Gulf War Resource Center at www.ngwrc.org. See also Richard Leiby, "The Fallout of War; Iraqi Ammo Debris Fell on Jim Stutts in

the cock-eyed neo-conservative optimists in this administration had suggested, one would not have envisioned the need to spend \$1.2 billion to date to import gasoline and diesel fuel products into an oil-rich country like Iraq. How much of that \$1.2 billion represents price gouging is a separate, and equally important, question.

As for hidden human costs of this war, we are already past 500 deaths of our military personnel, and combat injuries are occurring at a much higher rate than in the first Gulf War. In addition, because it is an occupation and not an air war, I think we will need to keep an eye on trauma-related issues for veterans returning from Iraq – the impact of seeing friends and fellow unit members killed and maimed, of serving in close combat, of seeing the impacts of the years of brutality that Saddam Hussein imposed on his own people, and so forth. We will need to make sure that our combat personnel get all the support they need to process these experiences, which will undoubtedly include needs for traditional health care as well as psychological and emotional support services. This will cost money, and it is not something that we can in good conscience cut corners on once we have asked our men and women and uniform to go into harm's way in a very difficult situation in Iraq. If our contracts with companies like Halliburton are “indefinite cost, indefinite quantity,” our *social* contract to meet the ongoing needs of the men and women of our armed forces – and their families – needs to be firm, fixed, enduring, and non-negotiable.

The Halliburton Factor: The High Price of Privatized War

Just as many in the Bush administration underestimated the challenges posed by the postwar occupation and stabilization of Iraq, they *overestimated* the ability of private companies like Halliburton to bear a lion's share of the burden in the rebuilding process.

⁹¹. In Many Ways, He's Being Pelted Still,” Washington Post, December 30, 2002.

In the January/February issue of The Atlantic, James Fallows has done us all a great service by pointing out the degree to which the Pentagon cast aside all of the detailed pre-war planning that had been done not only by the State Department, but also by the Agency for International Development, the CIA, and the Army War College. As the magazine's own summary puts it, "The U.S. occupation of Iraq is a debacle not because the government did no planning but because a vast amount of expert planning was willfully ignored by the people in charge."⁴

A related point that Fallows doesn't mention is that there were two sets of plans that the Pentagon did have well under way before the start of the war: 1) to drop its hand-picked Iraqi exiles into the country, and the Iraqi ministries, as soon as possible; and 2) to hand over as much of the rebuilding process – and the sustainment and support of U.S. troops – to private firms like Halliburton, Bechtel, Dyncorps, and SAIC, as quickly as possible.⁵ On one level, "exiles-plus-Halliburton" was the Pentagon's plan for post-war Iraq. This raises problems in terms of cost and accountability, but it also raises problems in terms of our larger objectives in Iraq, such as promoting security and democratization. I'll stick primarily to the narrower points in my prepared testimony, but I'd be glad to address the broader points in the question and answer period if there is interest in doing so.

What do we know so far about Halliburton's work in Iraq? We know that it has been secretive. If it hadn't been for persistent questioning from Rep. Henry Waxman's office, from Sen. Daschle and the members of this Committee, from the media, and from

⁴ James Fallows, "Blind Into Baghdad," The Atlantic, January-February 2004, pp. 52-74.

⁵ On these points, see Ceara Donnelley and William D. Hartung, New Numbers: The Price of Freedom in Iraq and Power in Washington, Arms Trade Resource Center World Policy Institute, August 2003; and the

non-governmental organizations like Taxpayers for Common Sense, the Center for Corporate Policy, the Project on Government Oversight, and the Center for Public Integrity, Halliburton's Iraq work might still mostly hidden from public view. The company was already doing significant work in the region under the Logistics Civil Augmentation Program (LOGCAP) contract, a ten-year arrangement in force since 2001 under which the company is in essence the on-call logistics and supply arm for the United States Army. Under LOGCAP and other non-Iraq-related contracts, Halliburton's Kellogg, Brown and Root division (KBR) has done everything from throw up "temporary" military facilities in Afghanistan, Uzbekistan, and Iraq to build prison facilities for terror suspects in Guantanamo Bay, Cuba.

So, with or without Iraqi rebuilding money, Halliburton would be a significant Pentagon contractor. The company has been in this line of work for some time, going back to when then Secretary of Defense Dick Cheney first asked the firm to do a study of whether a private firm might be able to provide logistics planning and support for U.S. contingency operations. Its first big contract for military support operations was in Somalia, followed by a multi-billion dollar payday in the Balkans, where the company made itself essential to the conduct of U.S. operations.⁶

But what really drew public attention was not the pre-existing LOGCAP work, it was the no-bid contract that Halliburton received to put out potential oil fires in the wake of an intervention in Iraq, and repair Iraqi oil infrastructure. The company was asked to do a scope of work prior to the war, and then they were awarded the contract. As an

Center for Public Integrity, Windfalls of War, October 2003, which is the most comprehensive study to date of contracts let for work in Afghanistan and Iraq.

⁶ The best brief history of Halliburton's rise in this area is in P.W. Singer, Corporate Warriors: The Rise of the Privatized Military Industry (Cornell University Press: Ithaca and London, 2003), pp. 136-148.

Army spokesman put it in an interview with Dan Baum for a piece he wrote for the New York Times Magazine, “They were the company best positioned to execute the oil field work because of their involvement in the planning.”⁷ This is circular logic, to put it mildly. Who was checking Halliburton’s assessment of what work needed to be done, to make sure they weren’t tailoring the scope of work to what *they could do* rather than *what needed to be done*? Who was going to monitor Halliburton, which was already providing a wide array of services for the U.S. military worldwide? And if there were problems, who was going to discipline Halliburton, a company that U.S. forces were already depending on for meals, clean laundry, vehicle maintenance, base building and repair, and a host of other essential functions?

One of the arguments made for rushing to give the contract to Halliburton was simple expediency. We needed to be ready to hit the ground running, we were told, particularly if Iraq’s oil fields were up in flames as had happened with the Kuwaiti fields in the first Gulf War. But it turns out that there were firms far more capable than Halliburton at putting out oil well fires that were never allowed to bid. As the late, great Mark Fineman of the Los Angeles Times pointed out in a piece filed with his colleague Dana Calvo in April of 2003, Boots and Coots International Well Control Inc., the Halliburton affiliate that would have been utilized to put out oil well fires, was actually in financial trouble at the time of the Iraqi contract and had limited “surge capacity” to deal with a major outbreak of oil well fires in the Persian Gulf. Luckily, the number of oil well fires were limited, but even to deal with a small number, Halliburton had to bring in

⁷ Dan Baum, “Nation Builders for Hire,” New York Times Magazine, June 22, 2003. For a fuller treatment of the history of self-serving deals surrounding Halliburton and its former CEO, Vice-President Dick Cheney, see Chapter 2, “Dick Cheney and the Power of the Self-Licking Ice Cream Cone,” in William D.

a second firm, Wild Well Control, Inc. Bill Mahler of Wild Well told Fineman and Calvo “We would have liked to participate in the pre-planning. It was frustrating we weren’t included.”⁸ So, the rush to hire Halliburton didn’t serve the need to get the best oil fire fighting firm in place, and could well have proved a major problem had there been more oil fires to deal with. Secrecy didn’t serve the needs of expediency, but it did serve to exclude other qualified firms from bidding on the work.

A similar story emerges in the case of the gasoline overcharges out of Kuwait. It appears that Halliburton overcharged by about \$1 a gallon on 57 million gallons brought in from Kuwait, using an intermediary firm called Altanmia. When pressed, Halliburton claimed that they were directed to use the firm, or alternately that the firm was the most expedient firm to truck the gasoline in from Kuwait. But when Rep. Waxman’s office asked a few questions it emerged that Halliburton had spent only one day looking for companies to assist in this work, that Altanmia had no track record in fuel supply, and that there may have been nepotism involved, in the form of a relative of a member of the Kuwaiti ruling family associated with the firm. Yet both Halliburton *and* the Army Corps of Engineers had argued that the company had done its best under difficult circumstances to get fuel into Iraq in the most expeditious way possible. Other Pentagon officials seem to disagree, since there is now an investigation under way to see if there was criminal wrongdoing involved in the fuel overcharges.⁹

Hartung, How Much Are You Making on the War, Daddy? – A Quick and Dirty Guide to War Profiteering in the Bush Administration (Nation Books/Avalon Group, 2004), pp. 23-43.

⁸ Mark Fineman and Dana Calvo, “Dealing with Fire; Months Before the First Bomb Fell, A Firm Tied to Halliburton Quietly Locked In a Pact With The U.S. to Fight Oil Well Fires. Now That Contract Is Drawing Heat,” Los Angeles Times, April 6, 2003.

⁹ David Ivanovich, “Politician Says Deal Cronyism: Links Halliburton, Kuwaiti Royal Family,” Houston Chronicle, January 16, 2004.

Then of course we have the “meals not served” scandal, in which Halliburton was billing the Pentagon for 42,042 meals a day at Camp Arifjan in Kuwait while only 14,053 were actual served. That’s not a small undercount, a case of being a little off in playing “guess who’s coming to dinner?,” as one Halliburton PR person put it. That means day in, and day out, billing U.S. taxpayers for *three times* as many meals as were actually served. And according to press accounts the *quality* of the meals was so unappealing that many U.S. soldiers in Kuwait skip out of the mess hall and go out and buy food from vendors on the street. So far, \$27 million in overcharges have been detected in just five facilities, with roughly another 50 to be checked.¹⁰ This sounds like a case of a company that was not just “stressed out.” This sounds like a company that was taking advantage of the fog of war and occupation to take U.S. taxpayers for a ride.

Finally, we have the case of at least \$6.3 million in kickbacks on yet another Halliburton contract in Iraq. If there are kickbacks, that means there has to be enough “padding” in the contract to allow for the kickback, plus a profit for all concerned. And if there’s a kickback on one contract, plus an overcharge on another, plus a systematic overbilling on a third, we have to ask ourselves when we stop treating these as isolated instances and acknowledge that there is a systematic problem of waste, fraud, abuse, and possible criminality involved in Halliburton’s operations in Iraq. Are we going to let them rip off the taxpayers first, and then just pay back the overcharge from future contracts, as has been the case so far, or are we going to demand systematic accountability and monitoring to make sure that the examples we have learned about thus far are not the tip of a very large iceberg?

¹⁰ St. Louis Post-Dispatch, “Deals on Meals,” February 9, 2004.

Towards Greater Accountability: A Question of Balance

A number of members of Congress and representatives of good government groups have called for Halliburton to be debarred from government contracts altogether, or from future contracts for the rebuilding of Iraq, based on the overcharges, kickbacks, and overbilling practices that have emerged in its work in the Iraqi theater to date. This may well be warranted, but it is as important to think about *how* we would go about doing this as *whether* to do it. As my friend and colleague David Isenberg of the British American Security Information Council (BASIC) put it recently, for our armed forces as they are currently structured, private military companies like Halliburton are like the American Express card – they can't leave home without them. So in order to contemplate punishing a company like Halliburton, you also need to think about how to accomplish the support and logistics tasks that Halliburton is currently shouldering on behalf of our armed forces.

I happen to believe that we *have* gone too far down the road of privatization when it comes to military support services. There are certain levels of discipline, risk, and discretion that one can expect from a person who has agreed to wear the uniform of their country that one cannot necessarily expect from a person or entity who is performing a similar task for a fee. Lieutenant General Charles S. Mahan, Jr. has asserted that there were points during the current Iraq war when the refusal of contract employees to go into harm's way deprived U.S. troops of fresh food, showers, toilets, and other basic services for months at a time.¹¹

¹¹ Anthony Bianco and Stephanie Anderson Forest, with Stan Crock in Washington and Thomas F. Armistead in Baghdad, "Outsourcing War," Business Week, September 15, 2003.

Unlike for U.S. military personnel, no one is keeping figures on the numbers of civilian contract employees killed and wounded in Iraq, but it is believed to be substantial, and some press accounts have suggested that the security costs tacked onto contracts by private companies doing rebuilding and troop support work in Iraq are anywhere from 6% to 25%. Speaking on the issue of the numbers of contract employees present in Iraq at any given point, Brookings Institution expert Peter Singer says flatly “No one knows the figures. The accounting and accountability is Enron-like.”¹² The early departure of 60 Korean engineers from Iraq in early December after two of their colleagues were killed in an ambush was only the most dramatic case of how the security issue may be affecting foreign subcontractors working for U.S. firms.¹³

I raise the issue of what one can expect from contract employees because in situations like Iraq they are increasingly becoming explicit targets of terror-bombers, resisters, and “dead-enders.” They are viewed as a potential weak link in the support system for our forces in the field that can be exploited to undermine morale, deprive them of vital supplies, and so forth. A company like Halliburton might well argue in response to this that they are better equipped than most firms to operate in dangerous environments, and that therefore they are a better choice than a firm that might otherwise seem like a logical choice based on more traditional business skills alone.

But it is on the efficiency front that the case for privatization, Halliburton-style is perhaps the weakest of all. The advantage of privatization is supposed to be that it shakes up complacent government bureaucracies by introducing an element of competition. Other advantages include cutting overhead by not having to invest in full-time, long-term

¹² Marego Athens, “To Make a Living, A Driver Risked It All,” Baltimore Sun, February 8, 2004.

employees to do short-term tasks, and hiring individuals with specialized skills (such as integrating certain kinds of technologies) for as long as needed and no longer. The problem with the Halliburton case is that once you have handed over a huge swath of your operation to them for a 10-year period, mostly in the form of open-ended, cost-plus contracts, there is no more competition. If you become dependent upon a company like Halliburton for essential functions, while eliminating the people you would need to carry out those functions, then you are setting yourself up for the death of a thousand cuts. Or, in this case, a thousand cost over-runs.

And that's particularly true if you don't have a good system for monitoring their activities on a regular basis.

So, where does that leave us? I think the independent investigations of Halliburton need to continue, but the punishments may have to proceed in parallel with a sort of "policy audit." If we take away this function from Halliburton, who should do it? What about this one?

This process would be helped substantially if we open the doors to genuine competitive bidding, not only among big U.S. companies, but between private companies and units of the U.S. government that may be able to do the job better. We also could do a better job of involving indigenous Iraqi entrepreneurs. And we should lift the absurd limits on who and who cannot bid on Iraqi rebuilding work. There are qualified companies from France, and Germany, and Russia, and other countries who disagreed with us about the imminence of the threat posed by Iraq. And they happened to be right, by the way – the Iraqi threat wasn't as imminent as our President claimed it was last

¹³ Ariana Eunjung Chu, "After Attack, S. Korean Engineers Quit Iraq," Washington Post, December 8, 2003.

spring when he rushed off to war against the wishes of most of the international community. But right or wrong then, that's not the main issue now. Our allies, and all nations of good will, should be part of the bidding process. If you only bring them in at the subcontracting level, then you aren't getting competition on price at the *prime* contractor level, which is where you would be able to save taxpayers some money.

Over time, we should re-examine which functions we want in the hands of private companies, and which ones we want the military itself to handle, particularly with respect to logistics and support functions that involve being in the midst of combat and occupation operations. But for now, part of holding Halliburton and other private companies accountable may involve scaling their responsibilities down to size, so they are not "too big to punish," without also punishing our men and women in uniform. That doesn't mean we can't hold them accountable, it just means we need a short- and long-term strategy for doing so, not a one-shot answer. The privatization of military support functions has evolved over a decade or more. Restoring the proper balance between government and corporate roles in this area could take at least that long.