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Corporations and the Public Purpose: Restoring the Balance

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FEDERAL CHARTERING AND NATIONAL SECURITY

It is hard to imagine an industrial sector better suited for federal chartering than the nation's defense and security contracting firms. The existence of these firms is predicated upon federal policy goals with the largest receiving major income streams through federal contracts. For example, Lockheed Martin, the Pentagon's number one primary contractor, received \$21.9 billion in 2003 from the Pentagon out of its total sales of \$32 billion.¹⁶⁹ Yet, even national defense corporations are chartered under state law and they enjoy the same weaknesses of state control that benefit other private corporations.

As private firms, the defense contractors are able to engage in lobbying, make campaign contributions to key members of Congress, and engage in other forms of influence-peddling in order to influence defense policy planning and weapons systems expenditures. Examples of private contractors defining the government's defense policy are rampant and systemic. In the recent case of Halliburton in Iraq, for example, Bunnatine Greenhouse, the senior contracting specialist with the Army Corps of Engineers blew the whistle on Halliburton's involvement in the contracting process.¹⁷⁰ "I can unequivocally state that the abuse related to contracts awarded to KBR represents the most blatant and improper contract abuse I

have witnessed during the [twenty year] course of my professional career [in government contracting],” said Greenhouse.¹⁷¹

The problem extends far beyond Halliburton. The growth of private military firms and corporate intelligence contractors in the past decade has created additional profitmaking pressures on national security policymaking processes.¹⁷² Interlocking relationships exist between the largest defense contractors and the Pentagon—including corporate representation on key defense planning boards, and the regular passage of Pentagon and industry personnel through the proverbial “revolving door”—i.e., to the private sector companies that they formerly oversaw.¹⁷³ The result is a steady stream of abusive contracting practices and a potentially dangerous distortion of American national security objectives. As a *New York Times* reporter describes the situation, “Lockheed has become more than just the biggest corporate cog in what Dwight D. Eisenhower called the military-industrial complex. It is increasingly putting its stamp on the nation’s military policies, too.”¹⁷⁴

Another result of defense contractors’ influence over Congress and defense policy boards is a long-term commitment to the development of high-tech weapons systems that only specific contractors are able to produce.¹⁷⁵ These weapons systems arguably have little to do with preventing acts of terrorism—one of the nation’s current greatest security concerns.

Two decades after President Eisenhower alerted the nation to the perils of maintaining a permanent “military-industrial complex,”¹⁷⁶ John Kenneth Galbraith suggested that it was time to recognize that big defense companies like General Dynamics and Lockheed, which do all but a fraction of their business with the government, are really public firms and should be nationalized.¹⁷⁷ “By no known definition of private enterprise can these specialized firms or subsidiaries be classified as private corporations,” Galbraith wrote.¹⁷⁸ He noted that much of the fixed capital of these firms is owned by the government and that as a highly-concentrated

industry, the defense firms were effectively protected from competition.¹⁷⁹ In 1968, 10 percent of defense contracts were subject to competitive bidding and 60 percent went by negotiations to contractors which were the only source of supply.¹⁸⁰ There was no market between the firm and the government. Instead, members of two public bureaucracies worked out agreements for supplying weapons and other war technologies.¹⁸¹

“The process of converting the defense firms from *de facto* to *de jure* public enterprises would not be especially complicated,” Galbraith suggested, outlining a transition plan for doing so: If a company or subsidiary exceeded a certain size and degree of specialization in the weapons business, its common stock would be valued at market rates well antedating the takeover, and the stock and the debt would be assumed by the Treasury in exchange for Government bonds. Stockholders would thus be protected from any loss resulting from the conversion of these firms.¹⁸²

Galbraith proposed that the new nonprofit companies directors would could be designated by the Government.¹⁸³

The greatest enthusiasm for Galbraith’s proposal came from individuals associated with these defense firms who had witnessed fantastic waste and misuse of the nation’s resources. Many liberal members of Congress, who received campaign contributions from the defense sector, opposed the idea.¹⁸⁴

Converting the companies to publicly-controlled, nonprofit status would introduce a key change: it would reduce the entities’ impetus for aggressive lobbying and campaign contributions. Chartering the defense contractors at the federal level would in effect allow Congress to ban such activities outright, thereby controlling an industry that is now a driving force rather than a servant of foreign policy objectives. As public firms, they would certainly continue to participate in the policy fora designed to determine the nation’s national security and defense technology needs, but the profit-driven impetus to control the process in order to best serve corporate shareholders would be eliminated. Thus, by turning defense and security

firms into full public corporations, we would replace the criteria by which their performance is judged from quarterly earnings targets to criteria that is more consistent with the national interest.