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## Defense One

# Does the Pentagon's Checkbook Diplomacy Actually Work?

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In response to **concerns** about shortages of medical and personal protective equipment amid the COVID-19 pandemic, President Donald Trump **invoked** the Defense Production Act in April. That enabled him to compel a number of American firms to produce ventilators, masks, and other equipment for purchase by the U.S. government.

The **Defense Production Act** is ultimately a special case of a much broader phenomenon: the targeted use of the U.S. government's ability to procure goods and services for particular economic, political, or strategic goals. As we discuss in a new report with the Cato Institute, "**Money as a Weapons System': The Promises and Pitfalls of Foreign Defense Contracting**," much of the U.S. government's procurement spending, in fact, takes place overseas, with contracts being awarded to foreign firms. Since 1951, for example, the Department of Defense has preferentially awarded U.S. government contracts to hire Greenlandic labor to maintain the U.S. Air Force's Thule Air Base. Between 2000 and 2015, we estimate, DoD spent nearly \$2 billion in Greenland.

Greenland is not unique. DoD spends billions each year **procuring** goods and services abroad to support Washington's global military footprint. A substantial portion of this spending – according **to our estimates**, upwards of \$1 billion each year – is awarded not through competition but to hand-picked firms. Since 2000, Congress has passed legislation allowing the Department of Defense to bypass open competition and preferentially award contracts to foreign firms four times: in **Iraq and Afghanistan in 2008**, in **Central Asia in 2010**, in **Djibouti in 2015**, and, as of 2017, all of **Africa**. These contracts go to secure military access, promote local economic development, and even wage counterinsurgency campaigns.

In principle, the arguments for using defense spending this way are sensible. Providing jobs is a good way to curry favor with local populations in places where the United States wants to maintain a military presence. Other foreign policy tools may not reach the right people. The well-known risk with foreign aid, for example, is that recipient regimes will **divert it** for their own purposes **instead of** investing in public goods. Contracting directly with local firms might help bypass corrupt governments.

But there is a big problem with this seemingly sound logic: to date, there is no evidence that it works as promised. Outside of government audits and investigations related to the wars in Afghanistan and Iraq, there has been little effort to study whether preferential procurement actually produces the desired results.

The lack of systematic evidence and **failure to collect employment data** are reason enough for skepticism. Even more troublingly, there are examples that suggest spending as foreign policy has produced unintended consequences. During the wars in Iraq and Afghanistan, for example, DoD **accidentally awarded** a number of government contracts **to organized criminal groups or insurgents**. By **some estimates**, ten percent of defense-related logistics contracts ended up in the hands of insurgents. Sometimes the problem is just poor coordination: in places with limited service providers, U.S. agencies sometimes end up bidding against each other for the same goods and services, artificially inflating prices.

In other cases, DoD has been burned by the business practices of private firms. The law limits the government's ability to dictate the hiring of firms it does business with. This caused problems in Djibouti, where the United States has its only base in Africa, Camp Lemonnier. In 2013, the American company in charge of base support fired local Djiboutian employees in search of cheaper labor, despite a diplomatic understanding between the United States and Djibouti that the base would provide jobs for Djiboutians. Between the fallout and threat of hosting a Russian base, the Djiboutian government managed to hike Washington's annual base rent from **\$30 million to \$63 million**.

All of this suggests that the use of procurement spending as a tool of foreign policy deserves greater scrutiny – from Pentagon officials, from Congress, and from researchers. For one, Congress could make preferential procurement authorities conditional upon independently conducted studies of this spending's effectiveness. Similarly, Congress should set clear guidelines as to how the Defense Department should vet potential vendors. This sort of Congressional oversight could go a long way in ensuring that there are more upfront assessments and fewer post-mortems.

DoD should also work to collect more data on both its preferential procurement and the outcomes it hopes to shape by using it. First, we need to be able to answer questions such as: who is getting the business and how many jobs are created? That will enable systematic study of questions such as: what are the downstream effects on local markets? Do local jobs actually buy local goodwill? Information on the number of jobs created under a particular contract, the vendors, and their subcontracting practices would go a long way toward enabling systematic study of defense spending's potential benefits and drawbacks.

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