



## For Defense Contractors, the Lobbyists Still Rule

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*The new defense budget will have plenty on K Street scrambling.*

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Last week, the Obama administration submitted a \$708 billion budget proposal for defense spending for 2011.

That amount accounts for 4.7% of the US economy, and, as the *Financial Times* [notes](#), this number "is before taking into account the many other US outlays on national security."

Martin Feldstein, an economics professor at Harvard, [points to](#) defense spending as a "great stimulus." So does fellow conservative William Kristol, editor of the [Weekly Standard](#).

Take the \$70 billion F/A-22 fighter program, for example. In 2005, [an article](#) in the *Washington Post* claimed that the F/A-22 was "an economic engine, with 1,000 suppliers -- and many jobs -- in 42 states guaranteeing solid support in Congress."

In 2009, Defense Secretary Robert Gates tried to cancel the program, but lawmakers and state governors lobbied President Barack Obama to keep production going to preserve 95,000 F/A-22-related jobs.

William Hartung and Christopher Preble of the libertarian Cato Institute, not exactly a collection of ex-flower children listening to the Grateful Dead while debating the pros and cons of bongos versus vaporizers, [say](#) these arguments ignore the fact that "military spending is supposed to serve one central purpose: advancing US security. The defense budget is not a jobs program, nor should it be. Decisions on how many Humvees to buy or how many bases to refurbish should rest on military necessity, not economic expedience subject to political chicanery."

Who is at the heart of this job creation? The *Financial Times* article includes a breakdown of the top 10 defense contractors by size of military contracts awarded in 2009, as well as the amount of money spent by each on lobbying.

### 1: Lockheed Martin (LMT)

\$31.3 billion in contracts/\$13.5 million spent on lobbying

### 2: Boeing (BA)

\$20.9 billion in contracts/\$16.9 million spent on lobbying

**3: Northrop Grumman (NOC)**

\$16.1 billion in contracts/\$15.2 million spent on lobbying

**4: General Dynamics (GD)**

\$15.9 billion in contracts/\$10.3 million spent on lobbying

**5: Raytheon (RTN)**

\$15 billion in contracts/\$7.3 billion spent on lobbying

**6: United Technologies (UTX)**

\$7.1 billion in contracts/\$8.1 million spent on lobbying

**7: L3 Communications (LLL)**

\$7.1 billion in contracts/\$5.2 million spent on lobbying

**8: BAE Systems (BAESY)**

\$6.8 billion in contracts/\$5.3 million spent on lobbying

**9: Oshkosh (OSK)**

\$6.4 billion in contracts/\$380,000 spent on lobbying

**10: KBR (KBR)**

\$4.7 billion in contracts/\$650,000 spent on lobbying

Companies in the defense sector know the bulk of their profits are generated by one major customer: the government.

When the White House announced the military build-up in Afghanistan, the 10 aforementioned companies [spent \\$27 million](#) lobbying the federal government in the fourth quarter of 2009 -- that's an increase of \$7.2 million over third-quarter expenditures.

Boeing spent \$6.1 million as compared to \$3.7 million during the previous quarter. United Technologies jumped from \$1.4 million to \$3.7 million in lobbying expenses. And Raytheon spent \$2.2 million, up from \$1.9 million.

Corporate bread needs to be buttered, and the return on lobbying investment is extremely high.

"Companies spend a lot of money on lobbying because it's cost-effective," Melanie Sloan, executive director of Citizens for Responsibility and Ethics, tells Minyanville. "What we have nowadays is just a legalized form of bribery." She notes that spending \$50,000 on lobbying is nothing if it ends up leading to a \$100 million contract.

In fact, it's difficult to determine where the private defense sector ends and the government begins. Many former high-ranking government officials are on the boards of the corporations doing the biggest business with their former employers -- the Air Force, Army, Navy, and Marine Corps. E. C. "Pete" Aldridge, Jr., former undersecretary of defense, sits on the board of Lockheed Martin. Charles Larson, a retired admiral for the Navy, and Richard Myers, a former Air Force general and the former chairman of the Joint Chiefs of Staff, both sit on the board of Northrop Grumman. (Myers is also on the board of United Technologies).

Jay L. Johnson, also a retired Navy admiral, sits on the board of General Dynamics. Vernon E. Clark, formerly the chief of naval operations for the US Navy, sits on the board of Raytheon.

During his presidential campaign, [Obama said](#) that lobbyists "won't find a job in my White House." But, in fact, they have. Before he even took office, [Obama relied on Broderick Johnson](#) as an informal adviser. A former lobbyist, Johnson represented companies including **Verizon** (VZ), **Microsoft** (MSFT), Shell Oil, and **Ford** (F). Now that he's president, Obama has appointed ex-lobbyist and former Raytheon executive William Lynn to the post of deputy secretary of defense. Additionally, his national security adviser, General James Jones, sits on **Boeing's** (BA) board of directors.

Oddly, this policy hasn't been applied evenhandedly. Tom Malinowski was the Washington advocacy director for Human Rights Watch and was considered the perfect candidate to serve as Obama's human rights chief. An article in the *New York Times* pointed out that Malinowski had one major liability -- he was a registered lobbyist and was ultimately ruled out for the job.

"It's an outrage," Stephen Rickard, executive director of the Open Society Policy Center, [told the Times](#). "Tom is one of the most effective and dedicated human rights activists in Washington, and you could get 20 people to say that. It's extremely unfortunate that Tom and people like Tom can't be brought in to use their talents."

Jamie Fly, who was a civilian employee at the Pentagon during the Bush administration and is now executive director at the Foreign Policy Initiative in Washington DC, agrees.

"A no-lobbyist policy may have been a great campaign pledge, but in reality, there are a lot of very talented people in Washington who have done lobbying work, which shouldn't preclude them from working for the government in the future," he says. "Many good people have given up on the idea of working in the Obama administration because of this ludicrous policy."

Then, there's the issue of "lobbyists" who aren't actually lobbyists. The Department of Defense employs retired military officers as "mentors," whom some believe might have undue influence over decisions related to defense contracts.

Technically considered independent contractors, DOD mentors [aren't subject to the same ethics rules](#) as part-time federal employees.

General Anthony Zinni, chairman of BAE Systems, is paid about \$2,000 per day to mentor people at DOD in conducting war games, and so forth.

Other mentors include:

Maj. Gen. Timothy J. McMahon, an executive with Northrop Grumman

Gen. Charles "Tony" Robertson, an executive with Boeing

Lt. Gen. Leonard D. Holder Jr., an executive with Northrop Grumman

Gen. Frederick Franks, on the board of directors with Oshkosh

Lt. Gen. James C. Riley, an executive with Raytheon Missile Systems

Lt. Gen. George Crocker, an executive with Northrop Grumman Mission Systems

Information gleaned by mentors has tremendous value to defense contractors, Richard Aboulafia, chief aerospace analyst at the Teal Group, told *USA Today*.

"It's the most valuable form of market intelligence for a lot of companies," [Aboulafia said of mentors](#). "The companies get an insight into what kind of technologies and products are needed to meet emerging strategic visions and requirements."

Fly offers a stark rebuttal.

"There might be problems if acquisitions officials are involved, but as far as mentoring people to give them better information and help them make better decisions, this doesn't seem to be a problem to me," he said. "These are experienced, highly-qualified people whose knowledge can be tremendously useful. Some have raised concerns about a revolving door, but defense contractors want people that understand their business, and as long as the mandated waiting periods are respected and guidelines are followed, I don't see a problem with hiring them."

A final note: the Joint Forces Command cannot disclose the exact dollar amount mentors are paid because that information is held by three government contractors, which hires the mentors as sub-contractors.

Perhaps not surprisingly, [two of the three contractors](#) with that exclusive information are General Dynamics and Northrop Grumman.

No positions in stocks mentioned.

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