

MILITARY FOR HIRE?:  
AN ANALYSIS OF THE PRIVATIZATION OF MILITARY SERVICES IN THE U.S.

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A Thesis Submitted to the Honors College

In Partial Fulfillment of the Bachelor's Degree with Honors in

Public Administration

University of Arizona

May 2008

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## ABSTRACT

Thousands of contractors are currently employed by the U.S. to carry out military operations in countries abroad. This brings to question, however, is the privatization of military services in the U.S. a positive adage to our society? This thesis discusses the concept of privatization – its defining characteristics, application to goods and services in our society, and appropriate service arrangements, with a specific look on collective goods, such as national defense. Understanding the characteristics of privatization is imperative in understanding the historical development of privatized military services. In addition, this thesis looks at the benefits and risks of contracting as a service arrangement for privatized military services, while providing a close look at Blackwater, a private security firm contracted with the U.S. government to provide military services and logistical support. Finally, the thesis concludes that there are financial, legal, and ethical concerns regarding the PMF industry. I conclude that private military firms are proving to be a negative adage to our society that will have difficulty trying to integrate its services with the public sector's U.S. military.

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## I. Introduction

Defining government's proper place in society has been an ongoing debate. David Osborne and Ted Gaebler (1993), authors of *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector*, theorize that when people think about government, the thought of programs is synonymous with government's perceived role. Peter Drucker (1968), acclaimed scholar and author of *The Age of Discontinuity*, explains in his book that this is the sickness of government – the belief by the people that government holds all the answers and as a result, involves its hand in service delivery to solve society's supposed problems. Was this the intention of government's creation? While it is understood that government is needed in society, the discrepancy lies in what government ought to be *doing* for society.

Perhaps government ought to be *doing* nothing and stick to only one role: governance. Drucker (1968), Osborne and Gaebler (1993), and E.S. Savas (1982), world-renowned scholars and experts in privatization, argue that government doesn't necessarily have to be involved in the delivery of goods or services, but rather, act as the governing body that oversees service delivery through the appropriate institutional arrangements. Appropriate institutional arrangements are dependent on the type of good or service in question. Different goods and services lend themselves to different arrangements of service delivery and in some cases eliminate government as the service producer.

Eliminating the government as the service producer is simply transferring the duty of production to the private or non-profit sectors. This concept was termed "re-privatization" by Drucker (1968), but is more commonly known and accepted as privatization (p. ix). Privatization simply means that goods and/or services are produced by a private firm. More specifically, the government no longer acts as the service producer and assumes its only responsibility as a service arranger in the production of goods and/or services. Privatization isn't a new phenomenon and has existed to improve efficiency of government's inefficient performance in service delivery as it relates to cost. Contracting, one of the most popular forms of privatization is common in national defense matters. In fact, John D. Donahue (1989), scholar and author of *The Privatization Decision*, notes that contracting is most common in the procurement of tangible goods such as defense weapons, missiles, and aircraft. Savas (1982) would argue that contracting is an appropriate institutional arrangement for national defense because it is a

collective good. However, this poses a question – to what extent is contracting acceptable for elements of national defense?

John D. Donahue (1989) states that the United States armed forces are a “network of contracts with private suppliers of hardware, logistical support, and advanced research” (p. 102). In fact, the largest government purchases in 1987 from the private sector were for military purposes. Historically, military procurement and government contracting has had its fair share of problems. Throughout the 1980s, procurement scandals were in the limelight often citing misdeeds from private contractors and contracting officials who failed to properly regulate. These problems came as a result of the defense contracting system itself. In the contracting process, the government solicits bids from private industry to fulfill a need. Private contractors offer their bids and the private contractor that promises low-cost and good performance is awarded the contract. If the contractor fails to live up to its end of the bargain, the contractor is penalized.

Donahue (1989) argues that the contracting process seldom works out this way, especially in defense contracting. Defense contracts often have uncertain missions for weapon contracts and as a result, contracts are changeable and incomplete. In addition, government has weak sanctions against poor performers because there are many barriers against replacing contractors. Donahue (1989) notes that “sanctioning contractors is apt to be organizationally and politically painful at best and impossible at worst” (p. 107). To challenge the poor performance of private contractors may result in delays of weapons programs which often attract scrutiny from the press at the dismay of legislators who approve procurement budgets and processes. With these issues, it is no wonder that throughout the 1980s, there was a common sentiment that government was spending too much on defense and perhaps it did. In addition, Osborne and Gaebler (1993) argue that using an influx of contracting can create entire industries. This was the case during and after WWII when the federal government “created the computer and semiconductor industries by funding development of computers for military purposes” (Osborne and Gaebler, 1993, p. 337). These issues have shed light on what some scholars think is much needed contracting reform. Despite, contracting persists and has expanded to different service elements of national defense.

Ironically, James Q. Wilson (1989), scholar and author of the book, *Bureaucracy*, theorizes that no matter the size of government, it would be “unlikely that this nation will ever decide to do without an army, or choose to turn over the armed services to private enterprise” (p. 10). Wilson’s faith in the State Department and Department of Defense is clear and he argues that the seriousness of conduct in foreign affairs can only be accomplished by a public bureaucracy. Despite his theory, it couldn’t be farther from the reality that exists today. Privatization of the armed services does exist through government contracting, but not without its failures.

Robert Young Pelton (2006) discusses in his book, *Licensed to Kill: Hired Guns in the War on Terror*, that private companies such as Blackwater USA, MVM, USIS, DynCorp, and Triple Canopy, have been contracted by the United States government to provide private security measures in military operations against the war on terror. The state of war that followed the attacks of September 11<sup>th</sup> stretched security resources justifying use of private defense mechanisms. Amidst its missions to protect state department officials, assist in the hunt for bin Laden, and the guarding of President of Afghanistan Hamid Karzai, allegations have cited Blackwater USA for killing innocent Iraqi civilians. Pelton’s (2006) conclusions and Wilson’s (1989) theories argue that privatizing military forces has its consequences that are attributable to the unique differences between private corporations and public bureaucracies.

This thesis seeks to address the different mechanisms of privatization proposed by leading scholars in this domain through a theoretical literature review. Addressing the growth of government, types of goods and services, appropriate institutional arrangements of these goods and services, and how mechanisms of privatization are decided upon and used are imperative in analyzing recent measures in privatizing military forces. Finally, after a complete analysis of current measures of privatizing the U.S. military, specific findings regarding the advantages and disadvantages of government contracting are noted. This leads to the final conclusions that highlight the financial, legal, and ethical concerns regarding the PMF industry.

## II. Literature Review

World-renowned scholars on privatization, E.S. Savas, Peter Drucker, David Osborne and Ted Gaebler, Robert Pelton, James Q. Wilson, and John Donahue, discuss their own theories regarding privatization and its application to various societal goods and services. This literature review seeks to look at leading scholars' theories and discussions on privatization.

### Governing and Doing

Peter Drucker (1968) noted that the American love affair with government began at the end of the Industrial Revolution in the late 1800s. This love affair continued for nearly 70 years, through the 1960s – it seemed as though government provided all the necessary cures to society ills and there was nothing to stop them, especially with the power of the people behind its involvement. Most significantly, the creation of government-delivered social programs and energized war efforts during the Great Depression and World War II reinforced these beliefs. Society was convinced of government's ability to organize energies for the good of the American people.

Disenchantment with the government eventually ensued. Drucker (1968) theorizes that people believed that government could produce many things without any cost to society. The cost of these "things" was only a fleeting thought, but as rising taxes incurred to meet the needs of social programs and agendas the public expressed its disapproval. Drucker (1968) notes that this wasn't necessarily an argument against these services, but rather, a delayed reaction to the fact that government programs and services weren't free as some of the public had once thought.<sup>1</sup> In addition, once the concept of cost (the amount of taxes collected from the public) was realized, constituents were able to correlate ideas of efficiency and performance. The correlation of performance to cost has shed light on government's poor performance in practically every area of its ownerships. Drucker (1968) argues that government's promises were and are rarely accomplished, and its delivery of programs and/or services that were believed to bring about a happier and healthier society had failed to do so. New Deal and Great Society programs may provide proof against this assumption, however, many of the Great Society programs faced much scrutiny and critics theorized that its programs were more suited

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<sup>1</sup> Drucker argues this wasn't an argument against taxation either, see Drucker, 1968, p. 215

for private sector delivery from private social service institutions. Despite, it wasn't necessarily accepted that businesses and for-profits alike would be able to do much better. It was believed that private industry held motives only for monetary gain that would often come at the expense of the patron. It was a commonplace notion that since "private business and profits are bad – ergo government ownership must be good" (Drucker, 1968, p. 216).

Drucker (1968) argues that delivering "certain things are inherently difficult for government" because government is not particularly good at innovation (p. 226). While this does not mean that all programs and/or services delivered by government are wrong or ineffective, Drucker (1968) does argue that the best government programs often outlive their usefulness. In fact, these programs often receive more money as the solution to fix its bureaucratic problems. Simply put – government manages poorly and the conflicts of its governance make it no coincidence that it becomes a bureaucracy promising high costs. Inevitably so, loyalty to government and its inefficiencies becomes more important than performance – for it is performance that can result in more efficient means that threaten the restriction of government (Drucker, 1968, p. 230). Drucker (1968) argues that the government hand is not always necessary – that the sole "purpose of government is to make fundamental decisions, and to make them effectively...The purpose of government is to govern" (p. 233). Problems with efficiency occur because government not only seeks to govern, but it seeks to be "doing" the tasks it is supposed to govern. Combining the acts of governing and "doing" results in fragmented decision-making and very poor "doing." It is realized through business management principles that separating the two core functions of "doing" and "governing" is necessary for the decision-maker to be able to make decisions independent from "doing". While this is understood as decentralization in private institutional terms, it does not mean in governmental terms to transfer the act of "doing" to state and local government structures. Rather, Drucker (1968) states, "it would be a systematic policy of using the other, nongovernmental institutions of the society of organizations, for the actual "doing," i.e., for performance, operations, and execution" (p. 234). As a result, businesses become particularly appropriate institutions because they are innovative organs.

Drucker (1968) argues that businesses hold specific comparative advantages over government when it comes to delivering goods and services. Unlike government, businesses

can abandon delivering certain goods or services when they are no longer profitable. However, this can be detrimental in the case of private contracting of military services in that private companies have the ability to abandon their business if it proves to be unprofitable. It is accepted by society for businesses to disappear when they outlive their usefulness. When government gets in the “business” of delivering a good or service, it is harder for them to pull out because it has established a constituency that is dependent and demanding that that good or service stays, regardless of the loss it may bring for government to provide it.<sup>2</sup> The transparency of business shows its inherent risk and it is this factor of risk that tests a business’ ability to perform. If a business can’t provide what consumers want, consumers will choose to go elsewhere. Businesses are forced to perform by providing their goods or services at a reasonable cost *and* at an appropriate level of performance for that cost. Those who do not simply do not survive.

For a strong and effective government to exist, Drucker (1968) states that citizens should want businesses that are not owned by government. Private entities, unlike government, are motivated by their own self-interest and face the risk of failure. The public makes a strong argument for free enterprise on the basis of its ability to make profit. However, Drucker (1968) claims the opposite – the strongest argument for free enterprise in the delivery of goods and services is its function of loss. Businesses innovate and manage change in order to minimize their losses. It is free enterprise’s ability to find the “right balance between results and the cost of efforts” that makes it more suitable to provide certain goods and services instead of government (Drucker, 1968, p. 239). It is this sole reason, Drucker argues, that makes business sometimes more equipped to become the “doer” instead of government.

David Osborne and Ted Gaebler (1993) make a similar analogy. They contest that the problem with public delivery of services is that lack of separation between steering policy decisions and rowing the delivery of services (Osborne & Gaebler, 1993, p. 35). Osborne and Gaebler (1993) argue that steering of organizations should be the sole purpose of government agencies and

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<sup>2</sup> However, this does not mean that government never abandons unprofitable business ventures. Other forms of privatization, such as displacement can occur. Displacement occurs when the government begins to slowly stop providing a government service and displaces it to the private sector (Drucker, 1968, p. 230).

that rowing should be left to the devices of the private sector. By doing this, it leaves “government operating basically as a skillful buyer, leveraging the various producers in ways that will accomplish policy objectives” (Osborne & Gaebler, 1993, p. 35). When an agency sets its goal to steer policy initiatives, they reduce and/or eliminate their role in rowing or operational activities. Injecting this kind of entrepreneurial spirit into the delivery of goods and services requires a solid understanding of the differences between types of goods and services that exist within society, as well as, why some goods and services are more suitable for private delivery than others.

### Types of Goods and Services

E.S. Savas (1982) discusses mechanisms of privatization in his book *How to Shrink Government: Privatizing the Public Sector*. He argues that understanding the different types of goods and services, is necessary to determine how they *should* be delivered. Savas (1982) states that two properties exist in the discussion of goods and services: exclusion and jointness of consumption. Exclusion refers to whether or not goods and/or services can be denied whether or not the user pays for them. Exclusion is directly related to cost – it is only feasible or infeasible depending on the cost of enforcing the exclusion in the first place. For example, exclusion from the services of a lighthouse is infeasible, whereas, exclusion of the purchases of grocers is very feasible. Goods and services can be consumed individually or jointly. While individually consumed goods can only be consumed once, jointly consumed goods can be consumed by more than one person without diminishing the quality of the good (Savas, 1982, p. 33). Simply, take for example a haircut given by a barber. Haircuts are subject to individual consumption; the services of the barber are not available to another while one is getting their haircut. On the other hand, national defense is considered a joint-consumed good in that the protection an individual receives in no way limits another’s consumptions of its protection. These simplistic properties are important in classifying different goods.

According to Savas (1982), private goods are those that are individually consumed and exclusion is completely feasible. These goods cannot be obtained unless the user gains access through a supplier, which occurs through payment. For example, store-bought goods such as food, housing, and groceries are classified as private goods. Common-pool goods are those that are individually consumed, but exclusion is completely infeasible. The most pure example of a

common-pool good is air. Prevention from anyone taking this good freely is virtually impossible – a usage charge on air isn't necessarily feasible or appropriate for that matter. Toll goods are those that are jointly consumed and exclusion is completely feasible. With toll goods, if the user does not pay to use the good, he or she can be excluded from enjoying the use of these goods. Examples include cable television, a weather forecast, and insurance. The more difficult or costly it becomes to exclude a customer from using a good; the more likely it is that the good is a collective good. Collective goods are those that are jointly consumed and exclusion is completely infeasible. People will generally not pay for these goods, and as a result, users are asked to pay through collection of taxes. Air pollution control is considered the most pure of collective goods, while national defense, education, and police protection are considered collective goods that are both impure in some manner. For example, consider the case of national defense – armies may be busy defending certain jurisdictions and cannot be used in other areas (Savas, 1982, p. 35). Classifying these goods is necessary in order to determine who is most willing to supply the good and most willing to pay for it. Knowing this information affects whether or not collective intervention is necessary in order to procure the good satisfactorily. Savas (1982) concludes that it is the job of government to consider different institutional arrangements that are most suited to deliver these different types of goods and services to the satisfaction of society.

#### Institutional Arrangements

Savas (1982) signifies that there are important differences when discussing the service elements of institutional arrangements. A service consumer is the consumer who “directly obtains or receives the service [or good]” (Savas, 1982, p. 56). A service producer is an entity that directly performs or delivers a service or good to the service consumer. Service producers can be governmental institutions (although Savas argues that this doesn't necessarily have to be the case), voluntary associations, private firms, or non-profit agencies. The service arranger is the agent who makes the service arrangements – assigning the producer to the consumer or vice versa. More often than not, the service arranger is the government. Arrangers face significant responsibilities for they have the authority to levy taxes or user charges. Arrangers have the ability and are required to determine the appropriate institutional arrangements to deliver goods and/or services (Savas, 1982, p. 57).

Savas (1982) recognizes nine different arrangements for the delivery of goods and/or services: government service, intergovernmental agreement, contract or purchase of service, franchise, grant, voucher, free market, voluntary service, and self-service (p. 57). Government service occurs when the delivery of a service or good is provided by the government. In this case, the government is not only the service arranger, but also the service producer. When a government hires another government to supply a service, an intergovernmental agreement occurs. This is commonplace in smaller communities where governments purchase library or fire-protection services from a specialized government entity. This also occurs when there are reassignments of service responsibilities between jurisdictions. In this case, one government is the producer, while another completely different government is the service arranger.

Government can also contract or purchase services from private or non-profit firms. It is important to note, however, that most of the private contracting that occurs is when the government purchases tangible goods from private contractors, such is the case with defense contracting. Franchising occurs when government awards monopoly privileges with some price regulations to a private firm to supply a particular good or service. Just like a contract arrangement, the government is the service arranger and the private firm is the service producer. So how are these arrangements distinguished? In a contract service arrangement, government directly pays the private or non-profit vendor, where as in a franchise service arrangement, the consumer directly pays the producer for the good or service. This is common in the delivery of toll goods such as utilities.

A grant service arrangement occurs when government gives a subsidy to a private entity to provide a good or service. In this arrangement, the government and the consumer act as co-arrangers – the consumer has the option to choose a specific producer, while government selects certain producers to receive its grants. As a result, both government and the consumer make payments to the producer. These subsidies are used to encourage the use of a certain type of good or service. The voucher service arrangement was designed much of the same way. Unlike the grant system, the voucher system allows the consumer to exercise free choice in the marketplace and is not restrictive. In this case, the government and consumer directly compensate the producer (usually a private entity) and the consumer usually has a free choice of who he or she chooses as the producer. The market arrangement allows the consumer to act

as the service arranger, providing the opportunity for the consumer to select a private firm as the producer. Government has no significant role in this transaction other than supplying service standards. The voluntary service arrangement occurs when a voluntary association acts as a service arranger by either directly supplying the service or hiring a private entity to do the work. This is no different than a private, not-for-profit firm operating in the free market. Lastly, the self-service arrangement occurs when an individual practices self-service measures to protect himself or herself. For example, protecting oneself against fire or theft can be easily obtained through self-service measures of prevention such as putting out his or her cigarette and locking the door (Savas, 1982, p. 59-70). Table I. clarifies Savas' (1982) theory on the appropriate institutional arrangements that can be used for the four different types of goods and services.

*Table I. Types of Goods and Institutional Arrangements That can be Used for Their Delivery.*

Arrangement	Private Goods	Toll Goods	Collective Goods	Common-Pool Goods
Government Service		X	X	X
Intergovernmental Agreement		X	X	X
Contract		X	X	X
Franchise		X		
Grant	X	X		X
Voucher	X	X		X
Market	X	X		
Voluntary		X	X	X
Self-service	X			

Examining each of these arrangements and different types of goods are important to determine the most appropriate arrangement of delivery for goods and services – particularly, collective goods. Because national defense is considered a collective good, this paper will focus on privatization mechanisms of collective goods and their viability. However, the nature of collective goods causes difficulty in determining appropriate service arrangements.

### The Difficulty of Collective Goods

All goods present their own advantages and disadvantages, but it is collective goods that pose the greatest and most serious problem in the organization of our society. Savas (1982) argues, while most other goods can be supplied by the marketplace, collective goods cannot. By nature, collective goods are used by so many people and exclusion is completely impossible – which is exactly the case when considering issues of national defense and the military. As a result, individuals have full economic incentive to use a collective resource to full capacity without paying for it and without providing effort to supply it. These individuals, according to Savas (1982), are known as “free riders.” Voluntary payment for collective goods does not occur and as a result, collection of taxes ensues to pay for the production and supply of these goods. Osborne and Gaebler (1993) expand on this thinking. They argue that because society as a whole benefits from collective goods, everyone should pay for it regardless of whether or not everyone uses it. This is the case with mass transit systems – it does provide an overall benefit to everyone in society by limiting pollution and traffic congestion, but not everyone chooses to use it. However, if “it were priced to cover its costs in full [by only its users], fewer people would use it and society would lose much of its collective benefit” (Osborne & Gaebler, 1993, p. 204).

Furthermore, Savas (1982) argues that measuring the supply of collective goods is even more difficult of a matter. For example, it is complicated to discern the appropriate units of national defense that should be purchased because national defense isn’t necessarily measured in units. In fact, the supply of collective goods isn’t measured in objective terms making it complicated to measure appropriately. Citizens have very little choice with respect to consuming collective goods. Individuals must accept them in the quantity and the quality that it is supplied. For example, two individual constituents may have opposite opinions regarding the power and use of the military – one may feel in danger and require more use of the military, while another individual may feel threatened by an increased use of the military and require less of it to be

used (Savas, 1982, p. 43). Neither has a personal voice in the matter and must rely on political processes to have their voice heard. Furthermore, it is these political processes that make decisions of allocation regarding its use and distribution. Savas (1982) states the appropriate role of government in making decisions regarding collective goods:

Government can be viewed as nothing more than an instrument for making and enforcing decisions about collective goods: which ones to provide, which ones are to be financed at least in part by involuntary collective contributions (taxes), how to allocate the costs or contributions, and how to allocate the goods themselves if they are not pure collective goods. (p. 55)

Savas (1982), like Drucker (1968), does not declare that government is required to be the deliverer of collective goods and that there are other appropriate institutional arrangements to deliver collective goods: intergovernmental agreements, contract or purchase of services, or voluntary arrangements. Because collective goods do not possess the property of exclusion, the other institutional arrangements that require exclusion to be effective, would not work for this type of good. This is all important to consider when governments decide to privatize goods and services.

#### Deciding to Privatize

Privatizing goods once delivered by government requires a shift in service elements, a term that Drucker calls re-privatization.<sup>3</sup> According to Savas (1982), privatizing promises a smaller government and efficiency through competition. However, many goods have a variety of institutional arrangements to choose from and privatizing may or may not always be the best choice.

According to Savas (1982), considering criteria of efficiency, effectiveness, and equity are imperative when considering the privatization decision. He argues that the most efficient arrangement is the one that provides the lowest cost, but also provides an acceptable level of quality. The most effective arrangement is the one that accomplishes its need and satisfies its

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<sup>3</sup> Drucker notes he originally coined the term, in which Margaret Thatcher later popularized as “privatization” (Drucker, 1968, ix).

customers. An equitable arrangement is one that guarantees the fairest distribution of the service.

John D. Donahue (1989) underlies Savas' concepts in his slightly different approach on deciding whether or not to privatize:

The more precisely a task can be specified in advance and its performance evaluated after the fact, the more certainty contractors can be made to compete; the more readily disappointing contractors can be replaced (or penalized); and the more narrowly government cares about ends to the exclusion of means, the stronger becomes the case for employing profit-seekers rather than civil servants. (p. 80)

However, if conditions exist conversely to these stated criterion, there is more to lose, making privatization more risky. James Q. Wilson (1989) argues that this is precisely the point. When considering government, you have everything to lose – government is inherently ambiguous and results are hard to measure to begin with, making the case for privatizing services very difficult. Despite, Donahue (1989) counter-argues that the public has more to lose when choosing public delivery of services when privatization exists as an acceptable institutional arrangement. The public may not only lose the cost discipline of competition, but also the benefit of innovation.

The underlying goals of privatization are to promote competition and improve efficiency. Osborne and Gaebler (1993) argue that competition cannot solve all of society's problems, but can be used appropriately to address government's bureaucratic idleness and inefficiencies. The most common mechanism of privatization includes the aforementioned contracting or purchasing of services by government. However, franchise, grant, and voucher services are all forms of privatization in their own right, but are not appropriate institutional arrangements for collective goods, such as national defense – the focus of this thesis at hand. Contracting is considered to be one of the more difficult methods of privatization that a public organization can choose, but also one of the most popular for it seeks to promote fairness through competitive bidding processes. Its difficulty lies in the fact that contracting requires the employment of contract management officials that write and monitor contracts. Because of the nature of collective goods, there has been an influx of contracting to supply these goods. Using contracting, has not only proven to be more efficient in some cases, but has also resulted in a

competitive environment that has helped transform performance levels in the public sector, such as has been the case with the privatization of trash collection. Contracting as a whole, helps service producers “keep their costs down, respond [more] quickly to changing demands, and strive mightily to satisfy their customers” (Osborne & Gaebler, 1993, p. 79). Whether or not public agencies choose to compete for contracts, contracting as a means of privatization can promote overall competence justifying the argument for its use.

### Arguments for Contracting

Privatization, specifically government contracting, and its suppliers promise superior efficiency. Let’s consider the task of garbage collection – a task that Donahue (1989) argues is most suitable to compare public and private efficiency and is one of the most popular tasks to be privatized by municipalities. Savas (1982) mirrors this argument by stating “contract collection is more efficient than municipal collection” (p. 93). Nearly two-thirds of all American cities use some type of private trash collection, which suggests that anywhere between one-third and one-half of Americans have their trash collected by private firms (Donahue, 1993, p. 58). Trash collection (a form of pollution control) is considered a collective good. Exclusion from this service isn’t plausible and as a result, the government acts as a service arranger and levies taxes to pay for this service. In turn, government often uses the contract method to collect trash in order to give customers the best deal – the use of private firms in trash collection can be cheaper and a more efficient use of taxpayer’s money. Osborne and Gaebler (1993) argue that the infusion of privatized mechanisms may also serve as a catalyst to promote efficient public sector delivery. This was the case in Phoenix, Arizona.

Amidst a tax revolt in 1978, the City of Phoenix, Arizona, opted to contract garbage collection to the private sector. Known as one of the most elaborate experiments in public-private competition, this instance forced the City of Phoenix to compete and develop their own bids for jobs that they had once done free of competitive forces. For the first year, the Public Works department submitted its proposals and lost every single time to private contractors that promised lower costs. The Public Works department knew they had to innovate their current practices if they were to ever compete with the private industry. By 1984, the Public Works department adopted larger trucks, redesigned their routes and work schedules, and created partnership teams to help improve the quality of their services. The department’s costs came

down and in late 1984; the Public Works department won a contract for garbage collection in the city's largest district. The transformation went beyond production levels; the overall morale of the department's employees had soared. It wasn't much longer after that, that private firms adopted the city's techniques – the benefits of inciting competition. The introduction of contracting occurred in other public work areas in Phoenix: landfill operation, custodial services, parking lot management, golf course management, street sweeping, street repair, food and beverage concessions, printing, and security. The City of Phoenix saved an estimated \$20 million over the first decade (Osborne & Gaebler, 1993, p. 76-78).

Cost-cutting, savings, and innovation as a result of contracting are the number one reasons advocates argue for its use. Donahue (1989) confirms that the evidence suggests that in most cases, when comparing costs of trash collection, private entities' average costs were less than the average costs of public sector delivery. Osborne and Gaebler (1993), suggest that public service delivery is thirty-five to ninety-five percent more expensive than contracting. However, Donahue (1989) does note that this varies between cities or jurisdictions, for some cities such as Phoenix, Minneapolis, Kansas City, and Newark, match performance levels of private sector firms. James Q. Wilson (1989) argues the same point, but he suggests that when public and private firms of the *same* size compete in the *same* marketplace, the costs and quality of delivery are usually the same. Regardless, it is understood, that government acting as a service arranger can strike better deals with private firms, rather than citizens trying to negotiate on their own – an inherent argument for contracting.

In terms of defense contracting, Donahue (1989) found that competitive contracting saved the Department of Defense nearly twenty-two percent in the 1980s. Not to mention, competitive contracting resulted in efficiency gains with both private and public competitors of these contracts – both sectors improved their precompetitive costs by an average of eighteen percent. These types of savings have been evidenced in other areas such as, office cleaning, fire-fighting services, and transportation. It was feared that the cost of unemployment benefits and other government payments for displaced workers as a result of contracting, would use up the savings incurred by using methods of privatization. Donahue (1989) cites that the government found only a small percentage of civil servants actually lost their jobs. In fact, most civil servants were reassigned, retired voluntarily, or left the government sector to work for

hired private contractors. However, those civil servants who transferred to the private sector were less satisfied with their working conditions and reported lower wages and benefits. Regardless, Donahue (1989) argues that private firms are potentially the more superior institution for efficient production, but competition must exist in the privatization process for this to be the case. Osborne and Gaebler (1993) agree that *competitive* contracting is the key to efficient production because it rewards innovation, boosts public and private sector morale, and truly responds to the needs of the consumers. Despite, contracting is subject to manipulation and corruption and should be monitored so that awards of contracts are not monopolized. It is these types of negative effects that compose the arguments against contracting as a form of privatization.

#### Arguments Against Contracting

Perhaps one of the greatest arguments against contracting is that private contractors can gradually develop a monopoly, especially if no-bid contracts take precedence. Osborne and Gaebler (1993) state that without a proper monitoring process by government, awarded contracts can be monopolized by private firms that always lowball their bids. Consistently privatizing to these types of firms proves to be expensive. Often, lowball bidders bid low at the onset and increase their costs later, after the project has already started. Lowball bidding, another argument against contracting, is considered a rampant problem affecting many municipalities. For example, the City of Phoenix ran into a disastrous problem with a solid waste management company who bid lower than their actual costs. As a result, it is common practice by government to weed out the lowest bidder in most competitive contracting processes.

Osborne and Gaebler (1993) argue that contracting can also pose a danger of fraud. Opponents argue that contracting opens the door for political payoffs to occur. In 1989, developers used their political connections to obtain contracts from the federal Housing and Urban Development department. The historical presence of this risk fuels opponents' arguments against its use – the cost of awarding contracts to political supporters is too great of a risk. Savas (1982) also cites anti-contracting arguments. He claims that opponents think private contracts are more at risk for service disruption. However, strikes by government employees have had the same effect, historically, as private sector strikes. Opponents fear that accountability loses its presence in contracting processes, but is government accountability that

much better? Savas (1982) and Drucker (1968) both note the public's growing dissatisfaction with government's accountability to society and opponents seem to forget the lack of transparency that exists within government today.

Osborne and Gaebler (1993) say the solution is simple. These problems can be avoided if government provides a contracting system that meets four criteria:

The bidding is truly competitive, the competition is based on hard information about cost and quality of performance, the contractors are monitored carefully, and a relative nonpolitical body is set up to perform these tasks. (p. 89)

Institutionalizing a separate body that makes decisions using hard data and making sure that the selection of contracts is public can help ensure that contracts are not awarded to political supporters. Donahue (1989) advocates that contracting works best when public agencies define in specific terms what they want accomplished, ensure competitors, evaluate the performance of the selected contractor, and remove or penalize selected contractors who do not live up to the contract requirements. Governments that use these methods have been pleased with the overall contracting process.<sup>4</sup>

#### Is Privatization the Solution?

Addressing these negative auspices of government contracting is important to assist in the consideration of the question – is privatization the solution? Osborne and Gaebler (1993) suggest that it is not the sole answer. While they recognize that government can contract out to the private sector, government's steering or governance function cannot. If this occurs, government loses its ability to make collective decisions. Drucker (1968) and Osborne and Gaebler (1993) suggest that rejection of government's existence altogether is ignorant of the market failures that do occur as a result of private sector misconduct. They argue that government acts as a tool to govern and regulate the functions of private sector as it relates to service delivery. Preserving its ability to do so solidifies a government that strictly governs and leaves the doing to those most appropriate to do so. Whether or not privatization is the

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<sup>4</sup> Osborne and Gaebler cite a 1989 satisfaction survey by the National Commission for Employment Policy (1993, p. 89).

solution in the delivery of private services requires further analysis of its historical development and its current existence in our society today

### III. Analysis

This section seeks to analyze the historical development of privatized military services. In addition, it discusses characteristics of the privatized military industry and its niche in our society today.

#### The Fluctuating use of Privatized Military Services

Privatization of military services, in one form or another, predates the 17<sup>th</sup> century. Prior to the 17<sup>th</sup> century, kings and princes tried to expand their control on their country's land. However the establishment of feudal systems prevented the existence of large armies, which resulted in these royal bodies to employ mercenaries to carry out their deeds. Not surprisingly, this created tremendous conflict with states that sought to regulate the actions of private mercenaries. State officials criticized the mercenaries' legitimacy to wage war on anyone they wished (Smith, 2002, p. 105). Much of this argument still exists today.

The use of organized mercenaries just described first started in Europe during the 14<sup>th</sup> century and were known as Free Companies or Great Companies (Smith, 2002, p. 105). Eventually these organized groups "developed in Italy as condottieri (literally, military contractors), who offered their services to the highest bidder" (Smith, 2002, p. 105). The condottieri system positioned itself as a mainstay in European culture until the 17<sup>th</sup> century, but not without conflict from sovereigns. Sovereigns found that these large mercenary armies were a threat to their own security. Interestingly, they hired individual mercenaries and integrated them into their own armies as protection.

Despite, the use of private military forces began to suppress. As states began to grow, many formed a solid structure that made the use of private contractors unnecessary. In addition, states created more innovative technology that was used for military purposes. Conversely, the use of technologically sophisticated weapons required military professionals that were able to dedicate their services full-time to be trained properly – a quality not found in private military

companies at the time. This development placed pressure on states to find the ability to properly train, pay, and maintain a full-time force of military services. Not to mention, the legitimacy of the state was beginning to be defined by its ability to protect its citizens – strengthening the reasons for taking away the right for private citizens to wage war or violence on others. Behind the scenes, however, private military corporations were extremely hard to regulate by the states, creating significant pressure for officials to completely eliminate private military contractors by law. These factors resulted in the disappearance of private military contractors in the 1800s (Smith, 2002, p. 105).

During the wars of the 20<sup>th</sup> century, particularly World War I and World War II, governments were able to maintain large voluntary armies, thus requiring no significant need for private contractors. The use of private firms, however, began to re-emerge during the Vietnam War. Private forces were used by U.S. forces to run covert military operations outside the view of Congress (Hartung, 2004, p. 6). In addition, private contractors were used for defense training of Vietnamese citizens (Avant, 2006, p. 328). However, the greatest influx of private contractors and the use of private military services developed in the past two decades. This influx occurred for two reasons.

Firstly, the use of private contracts for military services increased because of the need for technical assistance for the development and/or maintenance of more technologically advanced weapons used in the Gulf War (Avant, 2006, p. 329). More service jobs were contracted in an effort to maintain and service the military's increasingly complex weaponry. This resulted in the downsizing of U.S. military forces. Specifically, by 1998, "the Pentagon had reduced personnel at 55 facilities saving \$17 billion immediately and \$57 billion annually" (Cooper, 2004, p. 578). Secondly, the end of the Cold War in 1991 reduced the need for large voluntary armies because the possible threat of nuclear war and violence was no longer a primary concern. Unfortunately, smaller issues in the world still required the need for more military services, but countries, including the U.S., reduced their armies in an effort to maintain the concept of a more peaceful world (Smith, 2002, p. 108). Intrastate and regional conflicts throughout the world resulted in sovereign states unable to field sufficient armed forces and thus relying on private military contracts (Smith, 2002, p. 108).

Political changes in the United States during the 1990s also enhanced the argument for the privatization of military services. The Clinton-Gore efforts to “reinvent government” invited private companies to bid for contracts to provide military goods and services. To expand on this ideal and the doctrine of the Office of Management and Budget’s Circular A-76 – the doctrine that advocates outsourcing of government activities to enhance quality, economy, and productivity – Congress approved the Clinger-Cohen Act which enabled a single federal agency to handle contracts for other agencies. In addition, Congress passed the 1994 Federal Acquisition Streamlining Act that which made it “easier for the Pentagon and other agencies to purchase goods and services from the private sector” (Cooper, 2004, p. 578). This push toward defense contracting has seen a shift in the goods and services that are privatized – a trend that has not come without conflict.

#### The Privatized Military Industry

Historically, states turned to private military companies when they lacked the means to accomplish their desired ends. Once again, many countries are faced with this same dilemma and in turn, are relying on private military contracts for the delivery of military services. As mentioned, at the beginning of the Gulf War and prior to the end of the Cold War in 1991, many of the private military contracts were with private sector companies that assisted with the development and advancement of complex weaponry. While many of these types of contracts still exist today, defense contracting has extended to include contracts for privatized military forces and security personnel. Over the last decade, there has been an increase in the global trade of hired military services known to us as the privatized military industry, resulting in the emergence of private security companies specializing in security and combat forces (Singer, 2004, p. 522). Contracts with privatized military firms (PMFs) have shown their utility from “providing local security and serving as military trainers to actually planning and conducting small-scale military operations” (Smith, 2002, p. 111).

To characterize, privatized military firms “range from small consulting firms, comprised of retired generals to transnational corporations that lease out wings of fighter jets or battalions of commandos” (Singer, 2004, p. 522). Many PMFs hire retired military and police personnel – some of which operate in distinct niches or job functions based on background and past employment specialties. Operating in over fifty countries worldwide, PMFs have helped win

wars in countries such as Angola, Croatia, Ethiopia, and Sierra Leone. Not surprisingly, the United States has been the premier client in the privatized military industry. The U.S. Department of Defense from 1994 to 2002, entered into nearly 3,000 contracts with PMFs at a contract value estimated at more than \$300 billion (Singer, 2004, p. 523).

PMFs provide a wide range of support services. PMFs have provided logistics for almost every U.S. military deployment. At government checkpoints and compounds, private contractors are often the only line of defense. In addition, contractors carry out many duties such as, “guard food and fuel convoys that supply the troops and protect embassies, aid workers and foreign businesses” (Bennett, 2007, p. 1). The most recent war in Iraq has increased the use of PMFs to carry out other functions of the war. Private industry has handled many jobs from feeding and housing of U.S. troops to maintaining sophisticated weapons, as well as the controversial provision of private security detail. The table below discusses these types of privatized services that are contracted by the government to private military firms.

*Table II. Types of Privatized Services by Private Military Firms.*

<b>Type of Service</b>
1. Weaponry/defense manufacturing
2. Maintenance of complex military weaponry
3. Rear military support, such as food and supply delivery
4. Provision of housing services for enlisted U.S. military servicemen
5. Provision of intelligence/tactical support
6. Area surveillance/security detail
7. Security convoys
8. Additional combat forces

The use of private military contracts for war services in Iraq has strengthened and deepened competitive contracting throughout the world. Contracts have not been reserved just for private U.S. companies. In fact, contracts have been awarded to a wide variety of PMFs that vary in size, age, and nationality. Long established private U.S. security firms such as Halliburton, DynCorp and Blackwater join British based firms such as ArmorGroup and Control Risks Group in the provision of privatized military services. Not to mention, many of the companies recruit Iraqis to join their forces – stabilizing the private-security industry in Iraq (Avant, 2006, p. 331). Nearly 85 U.S. companies have contracts in Afghanistan or Iraq and this number continues to grow today. It is quite obvious that the use of PMFs is here to stay. Analyzing the historical development and the current existence of private military firms in our society has led to many findings regarding the benefits and risks of privatizing security.

#### IV. Findings

The analysis of privatizing military services identifies various benefits and risks relating to privatizing security forces. These advantages and disadvantages are highlighted below, as well as a particular focus on Blackwater Worldwide, a private military firm that has faced much scrutiny.

##### Benefits and Risks of Privatizing Security

Private military firms provide a series of benefits and risks – some more clearly defined and straightforward than others. Perhaps one of the greatest benefits is that PMFs are able to provide a surge capacity to “field additional forces without the political and bureaucratic lead time required for mobilizing military forces” (Avant, 2006, p. 331). Private security firms are able to recruit contractors quickly, offer them twice as much in compensation than the public sector, and offer short-term services where the public sector cannot. These characteristics enable PMFs to gather resources relatively quickly making it easy for the public sector to rely on their services. In addition, PMFs have the ability to hire contractors who specialize in certain areas because of their access to resources that enable firms to advertise for their specific personnel needs. Not to mention, because of their resource capacity, private firms are able to maintain databases that can target segments of potential employers based on their specialized

skill area. Their access to resources at a much lower cost is the antithesis of the public sector's capabilities.

Some advantages are a little less clear in their overall benefit. While, privatization has saved the government billions of dollars, particularly in functions that are better delivered (in most cases) by private firms, such as custodial work and trash collection; the argument that privatizing security has saved the taxpayer money is easily criticized. Privatization has been embraced by the Department of Defense as a way to save money, particularly through this period in history where the use of military services is at an all-time high. The Office of Management and Budget projected that the privatization of military services will save taxpayers more than \$1 billion over the next three to five years (Cooper, 2004, p. 570). This reduction in cost is said to be the result of the competitive bidding process – private contractors are expected to find ways to reduce their costs in order to win a government contract. However, when considering savings in defense contracting the line is often blurred and bottom line savings are not always clear.

Take for instance, the exposure of possible fraudulent activity of Halliburton's controversial no-bid contract to rebuild Iraq's oil industry. The Bush administration, particularly, Vice President Dick Cheney, received much criticism for awarding a \$7 billion government contract to Halliburton, where Cheney served as CEO from 1995 to 2000. Halliburton, along with subsidiaries such as Kellogg, Brown and Root, were to not only hired to rebuild Iraq's oil industry, but to provide military services such as the transportation of food and supplies to military installations around the country. In addition, it was speculated that Halliburton overcharged the U.S. government for certain services provided in Iraq. While no party was formerly charged for fraud, this instance created doubt to whether government defense contracts really do save citizens money, particularly if the bidding process is absent of competitive forces.

When considering the cost savings of privatizing military security and defense services many critics argue that the savings isn't as great as one might think. Many contractors are former military personnel such as Green Berets and Navy Seals who leave the public sector for private sector employment in PMFs. Private contracts earn nearly twice as much as they did when working for the government. It is argued that essentially the Department of Defense is spending

a significant amount of money to train military personnel and then paying a private security firm to make profit off the initial taxpayer's investment. However, this is no different than the airline industry, where many of the private sector's pilots received their training while serving in the military. It can be argued that taxpayers benefit from the revolving door between the military and the private sector. Defense contracting with the private sector proves beneficial in that the government continues to use contractors' expertise long after they have left public sector employment – where as before, the initial investment in training would have been lost otherwise (Singer, 2004, p. 523).

Not to mention, the latest expense sheet of the war in Iraq shows increased costs – enhancing the argument that private contracting is not always the cheaper option. These increases are the result of several factors. First, the dangerous environment in Iraq requires government officials to hire contractors that specialize in certain services. Just as one would assume, specialized services come at a higher cost. In addition, the uncertain environment in Iraq makes it difficult for the government to set specific duties with private contractors at the beginning of the signed agreement with PMFs. When the environment changes requiring more complicated duties of PMFs, it often changes the parameters of the contract arrangements with the private firm – a cost infraction assumed by the government, or more appropriate – the taxpayer.

It is also important to remember that PMFs, acting as private entities are subject to market pressures, which in turn, increase costs. Responding to issues of supply and demand subsequently increase costs. When needs are at an all time high and when private military services are heavily sought after, higher costs eventually ensue. This was the case in 2003, when the services of the PMF industry were at an all time high. In addition, caring for the welfare of employees results in increased costs for the PMF industry. In the public sector, health care rates for soldiers are set which is not the case for private sector military contractors. When private contractors enter more hazardous working conditions and environments (which is often the case), insurance premiums increase to almost skyrocketing rates. Estimates indicate that the Department of Defense “contractors in Iraq paid \$0.40 of every dollar for insurance” (Avant, 2006, p. 333).

When comparing salaries of U.S. servicemen and contractors some blurred evidence suggests that inflated salaries for private contractors greatly attributes to increased costs of contracting. Press reports in 2004 state that salaries for private security contractors were as much as \$1,000 a day (Avant, 2006, p. 333). In fact, many salaries for private Special Forces claim salaries from \$100,000 to \$200,000 a year compared to the annual salaries of \$50,000 for Army Green Berets or Navy Seals. However, private sector contractors consistently keep recruiting costs lower than the public sector military. Overall private sector cost savings will only occur “if the contractor does a job differently, and the government can insure that the contractor’s innovation fits well with the U.S. security goals” (Avant, 2006, p. 336).

Privatizing military services seems to have political benefits – but also gives way to potential risk. Deploying private contractors to engage in military operations and services is politically less costly than mobilizing national troops who are serving their country. The use of private military contractors for long-term missions instead of the deployment of U.S. military soldiers does not have much political risk for legislators. The growing discomfort with the war in Iraq provides additional reason for legislators to engage in the use of private military contractors so that their time in office is prolonged and supported by the general voting population (Avant, 2006, p. 331). Contracting has negative political consequences as well. Contracting “commits the United States to a pattern that may undermine the public military profession” (Avant, 2006, p. 340). Increased use of contracted private military services may make it difficult to reverse such decisions should things go wrong as it could reduce the political clout of lawmakers. Not to mention, arguments are made that the expansion of private military usage erodes the ethos of the U.S. military and creates competition affecting the public sector’s ability to retain soldiers. It is feared that by forcing the military to compete, it will “lose unique important professional qualities that are crucial to successful security operations in a democratic setting” (Avant, 2006, p. 340).

Privatizing military services does present some very clear disadvantages. The growth of the private security industry causes great concern regarding its relationship to military service sponsored by the U.S. government. Particular concern revolves around the potential for abuse – a potential while existent in public sector military services, is more likely in the less regulated private sector. Not to mention, this \$100 billion industry raises serious concerns in its overall

legality and how international regulatory laws protect and sanction PMFs. Private military firms are in the business of selling military services. Individuals selling private security force are known in the international realm as mercenaries – a role generally considered unacceptable. However, there are unclear and vague definitions of mercenaries that make it difficult to characterize such individuals. This difficulty transcends into the PMF industry where little law exists that clearly defines the prohibitions and regulations of the industry. The absence of law and regulation regarding the use and actions of PMFs enhances the argument that the industry is more susceptible to abuse and scandal. In addition, this absence of law creates serious problems in terms of enforcement. As a result, dealing with any abuse or scandal is difficult if no concrete rules or laws are clearly defined.

It is important to note that private military contractors are not held to the Uniformed Code of Military Justice (UCMJ). However, in some cases contractors are subject to the Status of Forces Agreement (SOFA), which makes contractors responsible to the laws of that territory. Unfortunately, if that territory is unstable in any way, it limits the territory's ability to produce effective outcomes of enforcement. For example, when employees for U.S. private security firm DynCorp were caught hosting prostitution rings in Bosnia, they were fired rather than prosecuted because of the lack of authority and organization in the country. Efforts to establish laws and regulations of PMFs have not been very successful.

Historically, even when American contractors have fallen subject to U.S. law, the laws have been unclear and uncertain as to their application to the PMF industry. For example, the Military Extraterritorial Jurisdiction Act (MEJA) "gives U.S. federal courts legal authority over persons who commit criminal acts abroad while under contract with the U.S. government" (Avant, 2006, p. 339). While this law may seem beneficial in some cases against abusive actions of PMFs it only addresses criminal actions and not the command-and-control issues addressed in the previously mentioned UCMJ. After 9/11, the Patriot Act was passed, giving authority to U.S. federal courts over "crimes involving U.S. citizens on property designated for use by the U.S. government" (Avant, 2006, p. 339). Unfortunately, the Patriot Act, like MEJA, is a new and untested law. As a result, the Patriot Act has held private contractors to different standards than those of U.S. military personnel. In the consideration of international law, such as those stipulated by the Geneva Conventions, the law is just as unclear and uncertain. The Geneva

Conventions “stipulate three categories of persons: combatants, non-combatants, and civilians. Contractors do not fit neatly into these categories” (Avant, 2006, p. 339). This creates a couple of concerns. First, the ambiguity in international laws in relation to PMFs brings concern that this would deny contractors prisoner of war (POW) status if captured by enemy forces. Secondly, it may result in contractors being especially targeted by enemies of war because it is known to be unlawful for individuals to wage war. While officials in Washington D.C. have made statements that captured contractors would be stipulated as prisoners of war if captured by the enemy, events have happened to the contrary. In February 2003, three contractors were captured while doing security detail in Colombia. When the event was released to the press, Washington maintained that these contractors were hostages and not POWs (Avant, 2006, p. 340).

These concerns for privatizing military services gives rise to the idea that the industry has difficulty integrating their behaviors and activities to be synonymous with their counterparts – the U.S. military. More specifically, the primary concern is centered on the concept of rules and engagement. Just as the U.S. military follows very strict rules of engagement, private military firms have their own set of rules. The fact that both entities abide by different rules of engagement, makes it difficult to integrate their services with each other. In addition, supervising issues have also taken hold adding to the difficulty of integrating services between the entities. U.S. field commanders have no authority over private sector personnel and thus rely on private contract officers. The 2004 GAO report noted low numbers of contracting officers. The lack of contracting officers makes it very difficult for U.S. field officers and other U.S. military personnel to coordinate actions which may result in disastrous consequences (Avant, 2006, p. 337). While a quick fix would be to increase the amount of contracting officers, it is quite costly – a cost that the taxpayer would have to bear. Not to mention, increased costs result in steeper competition from less costly competitors; a road that private military contractors do not want to take.

These negative and positive findings regarding the use of privatized military forces are highlighted in the following case study of Blackwater Worldwide, a private military firm in the United States. More importantly, it highlights more recent criticisms of Blackwater’s supposed misconduct.

### Blackwater Worldwide

Blackwater Worldwide (formerly known as Blackwater USA) and its subsidiaries, Blackwater Security and Blackwater Target Systems, kept under the radar, unknown to most civilians in the United States until recently. Now, Blackwater USA is almost a household name synonymous with controversy, misconduct, and speculation. Founded by Erik Prince, a former Navy Seal, Blackwater USA was created as a private entity that promised a stronger and quicker army in comparison to the United States military. Taking advantage of the privatization push of the 1990s, Prince found much enthusiasm from public agencies such as the CIA and State Department who sought private military services as a less costly approach. An advocate for his company's services, Prince argues that Blackwater provides security-guards-for hire, who are hired based on their background and expertise in previous military training and intelligence. Prince states that mercenaries are soldiers-for-hire who fight, while his company's employees simply act as security contractors that protect, "firing back only if they or what they're guarding comes under attack" (Pelton, 2006, p. 5). Private security firms like Blackwater, have provided security for installations, commercial and/or government reconstruction projects, as well as protected diplomats, business leaders, and journalists who live or serve in war torn countries. This doesn't suggest that their job is less dangerous. In March 2004 in Fallujah, four Blackwater contractors were captured and brutally hung by enemy forces.

Blackwater USA's first contract occurred six months after the attacks of 9/11. At this time, military resources were stretched thin and the CIA expanded contracts of security detail to private industry for the first time since the Gulf War. Prince, who had just developed Blackwater and was looking for an opportunity of growth for his company, contacted the CIA looking for business. A \$5.4-million urgent and compelling contract known as the CIA black contract, which eliminated the competitive bidding requirements, was awarded to Blackwater. Pelton (2006) recounts this occurrence:

The CIA had hired corporations for collection and other covert needs before, but they had rarely contracted out their field officers' security to private industry. After Prince called seeking opportunities for his new business venture, Blackwater obtained a \$5.4 million six-month contract that specified that it was for an "urgent and compelling"

necessity. “Urgent and compelling”(black contracts) contracts eliminate all the competitive bidding requirements, so the contract went to Blackwater. (p. 37).

The contract would have Blackwater billing out \$1,500 per man per day, approximating average earnings for contractors at about \$18,000 per month. Desperate times called for desperate measures and it was Blackwater that would reap the benefits from an expanded profit margin. This pay scale and promise of short deployments was certainly encouraging to Blackwater recruits who wanted to earn a decent living while raising a family back at home. Not to mention, recruits were intrigued by the quick hiring process – a process that didn’t exist in the public sector. Blackwater’s first black contract from the CIA was not the last. In fact, 15% of Blackwater contracts today are black contracts with the CIA. However, upon deployment, Blackwater and other private military firms, found a niche in private security detail, as well as covert missions in the hunt for bin Laden (Pelton, 2006, p. 36-41). The expansion of private military firm’s role in warfare has blurred the lines in terms of appropriate conduct while engaging in military contracted operations. As a result, it is not surprising that Blackwater has found itself amidst controversy.

On September 16, 2007, private security guards of Blackwater were accused of killing Iraqi civilians at Nisour Square in Baghdad, Iraq. Blackwater employees were seen shooting civilians by eyewitnesses. However, Blackwater employees claimed the civilians attacked a convoy en route to the heart of Baghdad. According to witnesses, these shootings were said to be unprovoked (Bennett, 2007, p. 1). In response to the attack, the Iraqi and American government pulled Blackwater’s authority to carry weapons in the region. The Iraqi government demanded that the U.S. embassy end all contracts with the private firm within six months. In turn, Secretary of State Condoleezza Rice “launched an internal review to determine if U.S. embassies are too reliant on contractors” (Bennett, 2007, p. 1). This report filed by members of the Committee on Oversight and Government Reform, discussed Blackwater’s involvement and use of force in the Iraq war (Additional Information about Blackwater USA, 2007). The report found that Blackwater was involved in 195 shooting incidents in Iraq from January 1, 2005 to September 12, 2007. Furthermore, most occurrences where Blackwater engaged in fire “the Blackwater shots were fired from a moving vehicle and Blackwater did not remain at the scene to determine if there were any casualties” (Additional Information, 2007, p. 7). Lastly, the

report found a number of incidents involving Iraqi casualties that were not reported to the U.S. State Department.

Five families of the Iraqi civilians who were killed filed suit in U.S. federal court in November 2007, claiming that Blackwater security guards ignored direct orders and were accused of going on a shooting rampage because of their addiction to steroids. Investigations as a result of this case were conducted by three parties: the Iraqi government, the FBI, and the U.S. Army. Investigations by the Iraqi government and FBI found that Blackwater employees were not liable for the killings of civilians and were acting on self-defense. On the contrary, however, the U.S. Army's investigations found that there was no enemy activity involved and declared the attacks a criminal event (Cohn, 2007, p. 47-48).

Founder, Erik Prince, was asked to testify in congressional hearings on behalf of Blackwater. Prince argued in favor of Blackwater's actions on September 16<sup>th</sup> and claimed that the private contractors were loyal Americans doing their job (Lardner & Flaherty, 2007, para. 2). In light of these hearings, Congress sought to pass the MEJA Expansion and Enforcement Act of 2007, which would bring all United States government contractors in the Iraq war zone under the jurisdiction of American criminal law. The measure would require the F.B.I. to investigate any allegations of wrongdoing (Herszenhorn, 2007, para. 1). This legislation is still pending. Additional efforts to regulate Blackwater in the wake of the September 16<sup>th</sup> shootings took hold in October 2007. The State Department made decisions to install surveillance on Blackwater vehicles, as well as recordings of all correspondence with Blackwater personnel and other military personnel (Broder, 2007, para. 5). Despite that these shooting incidents on September 16<sup>th</sup> shed light on Blackwater's overall conduct during the war in Iraq; the company currently maintains military contracts today.

The PMF industry and its scandals bring into question the validity of privatization in the service delivery of military services and force. While the aforementioned scholars have provided much insight to privatization in the public sector the question still remains – is privatizing military services the solution? Applying their theories to the current state of the PMF industry raises financial, legal, and ethical concerns regarding its use.

## V. Conclusion

Discussing why there has been a growth in privatized military services is imperative in understanding the financial, legal, and ethical ramifications of the PMF industry. Why has there been an influx of the use of privatized military forces? More importantly, is the influx a positive adage to our society? According to a Department of Defense census on the PMF industry, there were 180,000 private military contractors operating in the Middle East in 2007 (Singer, 2007, p. 2). I believe that the success and growth of private military firms is not only based on issues of supply and demand, but also as to what is more politically feasible. The war in Iraq has created significant demands on military personnel. Private military firms have risen to the occasion to meet this demand and have supplied an influx of ground military forces in varying areas of operation. Soon after the war in Iraq and Afghanistan begun, it was clear that the war efforts needed more than the original 135,000 troops that were planned. The options of increasing military forces, calling-up National Guard and Reserve troops, and trying to align forces with the UN and NATO were all politically undesirable options. It was possible that these options would have resulted in an outcry from the public who would have felt the effects a little closer to home, as well as, feelings of discontent having to compromise with UN and NATO demands (Singer, 2007, p. 3). It seems as though private military firms essentially provided the solution – the U.S. government would be able to field military operations in the Middle East without any political loss.

While it is known that contracting is an acceptable service arrangement for collective goods, such as national defense, the research and evidence presented in this thesis indicates that the PMF industry may not be the best alternative to more traditional military services because of the financial, legal, and ethical concerns it causes.

### Financial

One of the primary arguments in favor of privatizing military services is cost savings. Contracting inherently promises lower costs in most cases. As I have shown in my research, this holds true particularly for custodial services where government's delivery has proven to be particularly costly. However, is contracting always a less costly service arrangement? While contracting has shown cost savings in terms of weaponry development and maintenance of the

military's more complex weapons, cost savings in privatized military services is speculative at best. The truth of the matter is that the PMF industry's bottom line is profit. More specifically, I have indicated that private contractors are making 3-4 times more than the average U.S. soldier for doing comparable jobs. As a result, it does cause concern that taxpayers are paying excessive costs that benefit the pocketbooks of the corporate elite and those they employ.

Cost savings may be a more acceptable argument if the inflated costs resulted in greater efficiency. Are private military forces more efficient? Savas (1982) explains that the efficiency of a service arrangement is competition: that is "the degree of competition that an arrangement permits will, to a significant degree, determine how efficiently that arrangement will supply a service" (p. 81). I agree with Savas (1982) in that assuming there are enough producers to choose from, contracting is conducive to enabling competition, which in turn, can achieve economic efficiency. In the case of privatized military services, this causes concern if the contracting process is absent of competition. My research suggests this has been the case for such companies like Blackwater, who have been awarded no-bid contracts free from competitive forces. As a result, efficiency is compromised and can result in unwarranted events, which was the case in Blackwater's shooting scandal on September 16<sup>th</sup>, 2007 in Baghdad. While governmental military services have their inefficiencies as well, they are however, subject to regulatory and enforcement laws that often do not apply to private military firms.

### Legal

The distinct differences between governmental and private military firms causes concern regarding the accountability of private firms. Private firms operate under different codes of conduct and trainings than the U.S. military. In addition, it can be argued that their motives of service may differ – private military firms are motivated by factors of profit, while U.S. military soldiers are drawn to the public sector by acts of patriotism and the desire to give back. It is these differences that can detract from the military operations' overall objectives and result in botched missions and misconduct. When situations like this occur, private and governmental military service firms are held to different standards of enforcement. Peter Singer, foreign policy analyst at the Brookings Institute, confirms this suspicion: "many private military firms tend to fall through the cracks of legal codes" (2007, p. 11). Because legal codes are more specifically definitive of U.S. military personnel, private contractors are often held less

responsible for actions of wrongdoing. This absence of regulation, oversight, and enforcement severely undermines the ethos of U.S. military personnel and results in poorly integrated services from private and public sector military services in united war operations.

### Ethical

The negative aspects of privatizing the military and combat forces sheds light to the ethical dilemma that ensues: when the integration of public and private security entities is so blurred, what is the responsibility of government to private enterprises whose personnel is primarily motivated by compensation and not service? The government holds different obligations to each sector entity, legitimizing the ethical criticism of the use of PMFs. Such ethical concerns have been brought to the forefront as some PMFs, like Blackwater, have been accused of misconduct. Savas (1982) argues the importance of equity when deciding to privatize, however, in the case of the PMF industry, equity seems to be lacking.

Hiring private military contractors is becoming a dangerous phenomenon. Poorly integrated services, lack of efficiency, and excessive costs are supposed to be the antithesis of private enterprise, but recent events and evidence shows that the PMF industry falls short of its promises. Without competitive contracting, the industry is subject to monopolistic characteristics – characteristics that contracting seeks to prevent from occurring. Without competition, military services are simply being transferred from one form of government monopoly to another. Not to mention, the significant cultural differences between government-sponsored military services and private security firms makes it hard to argue the PMF industry's value to our society when its bottom line is profit. I conclude that private military firms are proving to be a negative adage to our society that will have difficulty trying to integrate its services with the public sector's U.S. military.

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