

NATIONAL DEFENSE AND SECURITY ECONOMICS

FUTURE DEVELOPMENT OF ECONOMICS OF DEFENSE AND SECURITY – ECONOMIC ASPECTS OF DEFENSE AND SECURITY PRIVATIZATION (Economics of private military and security companies)

Economic Aspects of Defense and Security Privatization

Content of Topics

- **INTRODUCTION**
- Basic Concepts
- Historical background of private military firms (PMCs or PMFs)
- Typology and activities of private military firms (PMCs or PMFs)
- Causes of increasing importance of private military companies in nowadays theatre
- Reasons of Private Military Companies Using
- Causes of the PMCs failure
- **CONCLUSION**

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ECONOMICS OF PRIVATE MILITARY AND SECURITY COMPANIES

INTRODUCTION

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Introduction

- **Main Objective of these lecture is to point out and to explain reasons for privatization of defense and security.**
- **As partial aims of this lecture, we can see:**
 - demarcation of implementation of outsourcing into condition of defence and security history,
 - Description of reasons for outsourcing implementation into condition defense and armed forces, ,
 - Description of cons and pros of outsourcing implementation into condition of defense and armed forces with accent on PMCs,
 - Point out on causes of outsourcing failures under condition of defense.

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Introduction

POSSIBILITY SECURING
SOME ACTIVITIES



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BASIC CONSPECTS

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Basic Concepts

Definition of the private military companies

- “PMFs are profit-driven organizations that trade in professional services intricately linked to warfare. They are corporate bodies that specialize in the provision of military skills –including tactical combat operations, strategic planning, intelligence gathering and analysis, operational support, troop training, and military technical assistance.” s
- “...their essential purpose is to enhance the capability of a client’s forces to function better in war, or to deter conflict more effectively.”

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Basic Concepts

Definition of the private military companies

- In short, the main characteristics of **Private Military Companies** are that they offer, with the goal of making some profits, services that will help their clients conduct better military operations. Weapons are not enough to wage a war effectively. You also need good logistics, well trained and well fed soldiers, good communication systems and so on. All this components can be provided by PMCs.

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T TYPOLOGY AND ACTIVITIES OF PRIVATE MILITARY FIRMS (PMCS OR PMFS)

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Typology and activities of private military firms (PMCs or PMFs)

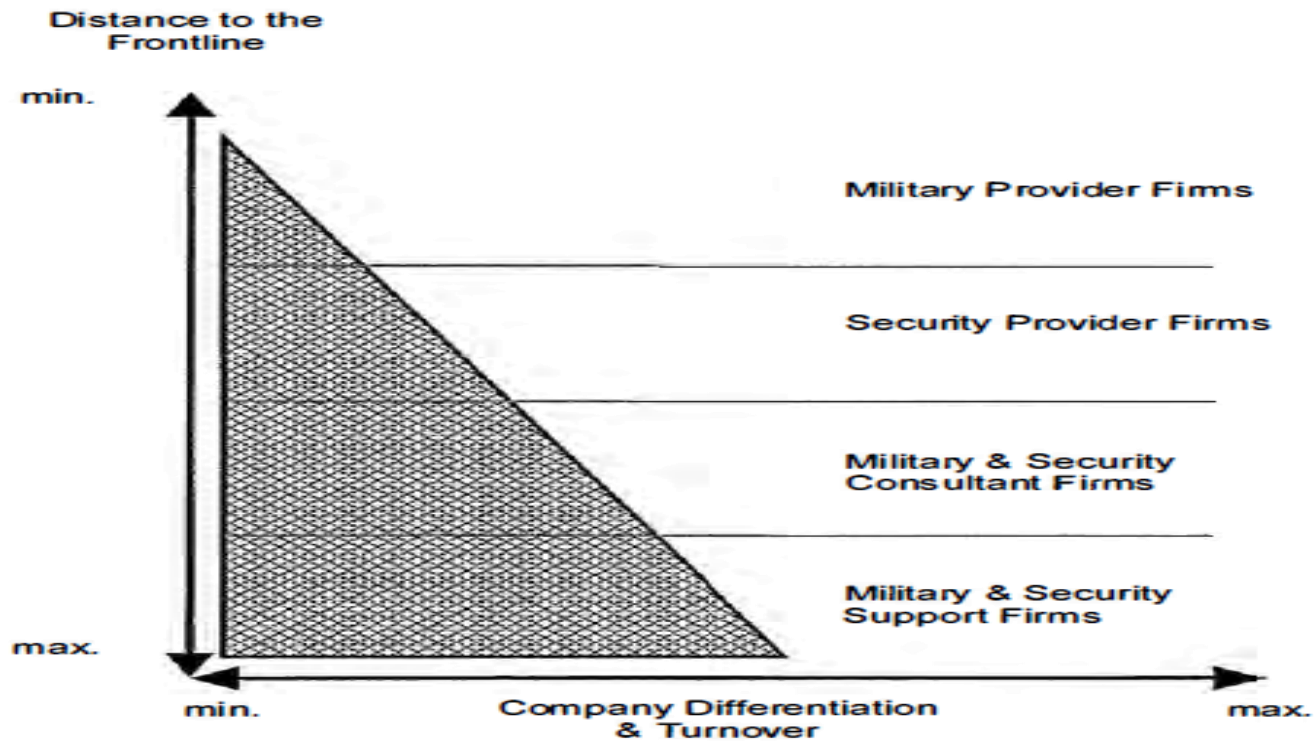
To better understand the private military industry, Peter W. Singer, devised a classification system that helps to organize companies according to the type of services they offer. The advantage of this system is that it not only presents a clearer picture of this industry but it facilitates its analysis. Singer's typology divides the industry in to three categories.

- a) Military provider firms
- b) Military consulting firms
- c) Military support firms

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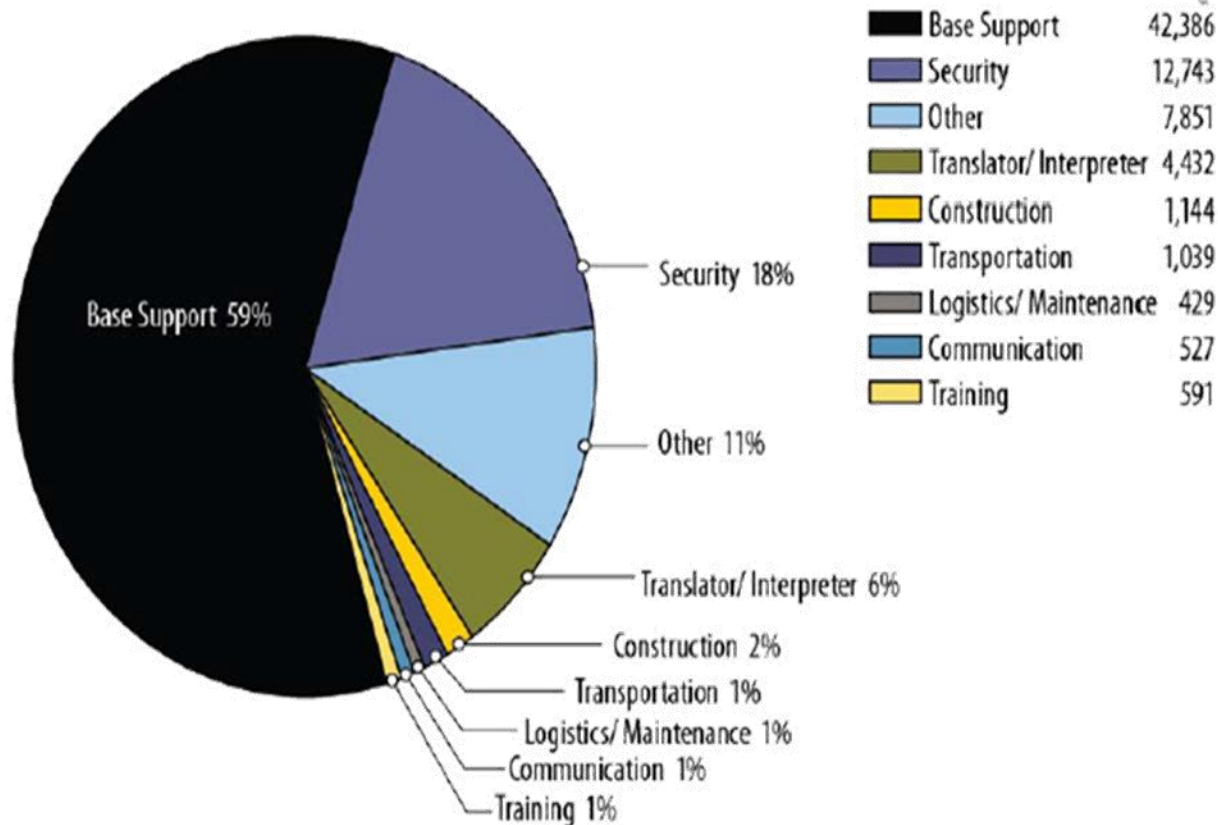
Typology and activities of private military firms
(PMCs or PMFs)

Typology come out from differentiation of services, turnover and closeness „theatre“



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Typology and activities of private military firms (PMCs or PMFs)



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HISTORICAL BACKGROUND OF PRIVATE MILITARY FIRMS (PMCS OR PMFS)

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Historical background of private military firms (PMCs or PMFs)

- Bible and soldiers salary
- Middle age and private subject usage in the Army „*Letters of Marque*“
- Merchenary and town states

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Historical background of private military firms (PMCs or PMFs)

- Summing up, we can characterize the **historical development of private military forces** usage by force of following points:
- In modern times we can recognize a **huge boom** of private armies in Europa from the beginning **Hundred Year War**.
- **Mercenaries** (Soldiers of Fortune) were the most used by France and on Apennine peninsula.
 - The relict from this time is Swiss Guard in Vatican.
- **Decline** of mercenaries came **after Thirty Years' War** (1616-48).
 - Its devastating course was assign from vast majority **undisciplined mercenaries**.
 - As result of this, **using private hired armies** were evaluated as **illegitimate**, after Vestfal's agreement.
- After Vestfal's agreement, the dominant instrument of armed conflict solution became **regular nation armies**.
-

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Historical background of private military firms (PMCs or PMFs)

- In recent years reports of mercenaries participating in Africa's interminable conflicts have given rise to fears that a major restructuring of force — the privatization of military force — is at hand.
- **Sandline International** and **Executive Outcomes**, private British/South African firms providing military advice and mercenary troops, were much in the news in the mid-1990s.
- **Executive Outcomes** obtained government contracts in Angola (in 1993) and Sierra Leone (in 1995) to **protect mining assets** and to **fight rebels**.
 - Wellknown are swashbuckler as Frenchman **Bob Denard**, Irishman **Mike Hoare** or Belgian **Jean Schramm**.
- **Today** **followers of former mercenaries try to make more trustworthy picture** themselves. Unfortunately firms as Blackwater, KBR, Halliburton, were unsuccessful and rather they made ill service to private military companies as a whole.
- **Unfortunately we are able** to illustrate it by whole range of the flagrant examples of PMCs failures.

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Historical background of private military firms (PMCs or PMFs)

- **Nové pole působnosti** pro soukromé armády přišly až ve 20.století, především v souvislosti s dekolonizací v Africe.
 - kde prosluli dobrodruzi jako Francouz **Bob Denard**, Ir **Mike Hoare** či Belgičan **Jean Schramm**.
 - Jejich angažmá v bývalém belgickém Kongu se stalo jedním z důvodů mise OSN (ONUC) v této zemi.
- **S rozpadem bipolárního systému**, zmenšením zájmu velmocí o své bývalé spojence ve třetím světě a s redukcí ozbrojených sil většiny vyspělých zemí po konci studené války (z 28.320.000 v roce 1987 na 23.500.000 v roce 1994) došlo k **rozvoji soukromých vojenských společností**.

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CAUSES OF INCREASING IMPORTANCE OF PRIVATE MILITARY COMPANIES IN NOWADAYS THEATRE

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Causes of increasing importance of private military companies in nowadays theatre

The confluence of three momentous dynamics the end of the Cold War and the vacuum this produced in the market of security, transformations in the nature of warfare, and the normative rise of privatization created a new space and demand for the establishment of the privatized military industry. Importantly, few changes appear to loom in the near future to counter any of these forces. As such, the industry is distinctly representative of the changed global security environment at the start of the twenty-first century.

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Causes of increasing importance of private military companies in nowadays theatre

- The gap in the market of security
- Transformations in the nature of warfare
- The power of privatization and the privatization of power
- The complexity modern armament system

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REASONS OF PRIVATE MILITARY COMPANIES USING

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Reasons of Private Military Companies Using

The main reasons for PMCs usage we can divide into three categories:

a) MILITARY

- **Tool of the compensation for lack of national capacity.**
 - PMCs offer high-tech skills in domains where armed forces can no longer afford to train personnel or create attractive career opportunities.
- In other instances, PMCs substitute for **non-existent capacity**.

b) ECONOMIC

- **Budgetary limitation of national states** – cost effectiveness PMCs (arguable)

c) POLITICAL

- **Smaller of citizens and national governments resistance** in case troops deployment in foreign.

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Reasons of Private Military Companies Using

- **Benefits** of PMCs usage
 - Military effectiveness
 - Economic effectiveness
- **Costs** of PMCs usage
 - Military effectiveness
 - Economic effectiveness

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CAUSES OF THE PMCS FAILURE (WHY DO WE PAY SO HIGH PRICE?)

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Causes of the PMCs failure (Why do we pay so high price?)

- **Incorrect control system**
 - Poor control mechanism and tools
- **Lobbying**
 - Insiders in the governments (New legislation designs were denied).
 - Money power (influence, information, decision making process)
 - Close relationship (former military and government executive /Dick Cheney/)
- **Unsuitable contracts**
 - Long-term agreements
 - **Cost plus** contracts (profit as percentage from overall cost)

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Conclusion

- **Decreasing military budgets** became worldwide trend.
- **Downsizing of armies** was a logical impact of Cold War End.
- The consequence of these trends was **lost of armed forces capability and ability** to fulfill some their obligations in last decade.
- **Usage of outsourcing** was on the **increase**. Spreading of PMSCs was its outcome.
- Expected benefits are unfortunately **unconvincing**.
- **Wasting of money**, endangering of the safety, health and lives both soldier and contractors **were enormous**.
- On the grounds of government failure the outsourcing as a **tool of economic management** could not be use.

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STUDY RESOURCES

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Study Resources

BOOKS

- KRČ, Miroslav. Ekonomické aspekty outsourcing v ozbrojených silách.
- SINGER, Petr. W. Corporate Warriors (The Rise of the Privatized Military Industry and Its Ramifications for International Security). New York: Cornell University Press; 1 edition (November 29, 2007) 360 s. ISBN 978-0801474361

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Study Resources

Studies

- Outsourcing v ozbrojených silách Brno: Univerzita obrany, Fakulta ekonomiky a managementu, 2007. Sborník z konference s mezinárodní účastí. 275 s. ISBN 978-80-7231-189-7.

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Study Resources

WEBSIDES

- Nákup služeb (outsourcing) Ministerstvem obrany k zajištění vybraných činností všeobecného zabezpečení. (Dostupné z: <http://www.nku.cz/scripts/detail.php?id=1744>).
- Příklady PPP v ČR (Dostupné z: <http://www.asociaceppp.cz/cnt/implementace/>)
- Defense Outsourcing: Challenges Facing DOD As It Attempts to Save Billions in Infrastructure Costs (Testimony, 03/12/97, GAO/T-NSIAD-97-110). (Dostupné na: <http://www.fas.org/man/gao/ns97110.htm>)
- Defense Outsourcing: The OMB Circular A-76 Policy (Dostupné na: <http://www.fas.org/sgp/crs/natsec/RL30392.pdf>)
- Reframing the Defense Outsourcing Debate (Dostupné na: http://peaceops.org/costeff/poi_rp_reframingdefensedebate.pdf)

THANK YOU FOR YOUR ATTENTION !!!

IN CASE OF QUESTIONS, CONTACT ME ON

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