

Course:

# **DEFENSE AND SECURITY ECONOMICS**

Distance Support Material

## ***TOPIC 10***

### **FUTURE DEVELOPMENT OF ECONOMICS OF DEFENSE AND SECURITY – ECONOMIC ASPECTS OF DEFENSE AND SECURITY PRIVATIZATION**

**(Economics of private military and security companies)**

**BRNO**

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# **Topic 10**



## **Economic Aspects of Defense and Security Privatization (Economics of Private Military and Security Companies)**

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# LEARNING OUTPUTS

## **Students will know:**

- basic concepts of economics of outsourcing and private military companies
- history of military outsourcing usage

## **Students will be able to:**

- demarcate reasons for privatisation of defense and security implementation
- explain causes of military outsourcing /PMCs/ failure

## **Students will capable of:**

- discussion about advantages and disadvantages private military and security companies usage.

# ECONOMIC ASPECTS OF DEFENSE AND SECURITY PRIVATIZATION (Economics of private military and security companies)

## KEY TERMS

Private military industry, Private military companies, private security companies, Failures of privatisation of military,

## TIME NEEDED FOR CHAPTER STUDY

4 hours

## Introduction

The **private military industry** may be one of the most important, but little understood developments in security studies to have taken place over the last decade. This new industry, where firms not only supply the goods of warfare, but rather fulfill many of the professional service functions, is not only significant to the defence community, but has wider ramifications for global politics and warfare.

Where once this highly secretive industry was little known or heard of, the series of recent events have dragged it into the public limelight. These events range from controversy over the role of military contractors in the Iraq war to allegations of a bizarre 'rent a coup' scandal that spans from Equatorial Guinea to the United Kingdom.

# 1 BASIC CONCEPTS

## 1.1 Definition of the private military companies

The debate over the widespread use of private military and security contractors today is still mired in anachronistic descriptions. Take, for example, the imprecise use of the term “mercenaries.” **Contractors doing functions that used to be done only by militaries are routinely described as mercenaries even though they clearly are not.**

**The most widely** – though not universally -- **accepted definition of a mercenary** is that in the 1977 Protocol I to the Geneva Conventions. Article 47 puts forward six criteria, all of which must be met, for a combatant to be considered a mercenary. **This is important because that Convention is the only globally accepted law regarding mercenaries and therefore governs whether a contractor can be prosecuted as a mercenary.** The convention defines a mercenary as any person who:

- a) is specially recruited locally or abroad in order to fight in an armed conflict;
- b) does, in fact, take a direct part in the hostilities;
- c) is motivated to take part in the hostilities essentially by the desire for private gain and, in fact, is promised, by or on behalf of a Party to the conflict, material compensation substantially in excess of that promised or paid to combatants of similar ranks and functions in the armed forces of that Party;
- d) is neither a national of a Party to the conflict nor a resident of territory controlled by a Party to the conflict;
- e) is not a member of the armed forces of a Party to the conflict; and
- f) has not been sent by a State which is not a Party to the conflict on official duty as a member of its armed forces.

**Why would someone working for a private security contractor in Iraq or Afghanistan, for example, not meet that definition?**

**First**, a majority of those working for a PMC are locals, and as such are “a national of a Party to the conflict.” **Second**, not all of them take a direct part in the hostilities. There are at least 200 foreign and domestic private-security companies in Iraq. Furthermore the type of work that contractors do is enormously diverse. It is by no means limited to the choice between people doing security work, i.e., carrying guns or performing logistics functions for the active duty military. **Some consultancy services, for example, are for decidedly non-kinetic functions**, such as sitting in front of computer consoles at Regional Operations Centers and monitoring convoy movements. Contractors also include academics with PhDs, working on the Army’s Human Terrain System.

In simple terms, it is incorrect to consider **the private military companies and contractors** as mercenaries.

## 1.2 The suitable of PMCs definition is following:

*"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."*<sup>1</sup>

*"...their essential purpose is to enhance the capability of a client's forces to function better in war, or to deter conflict more effectively."*

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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<sup>1</sup> P.W. Singer, "Corporate Warriors. The Rise of the Privatized Military Industry and Its Ramifications for International Security", Cornell University Press, 2003

## 2 HISTORICAL BACKGROUND OF PRIVATE MILITARY FIRMS (PMCS OR PMFS)

Although there have always been partisans and guerrilla forces, most military conflicts over the past several centuries has been conducted using professional militaries. **In fact, it was the cost of war that caused the formation of states.**

As academics such as **Charles Tilly** explained, **because of military innovation in premodern Europe** (especially gunpowder and mass armies) **only states with a sufficient amount of capital and a large population could afford to pay for their security and ultimately survive in the hostile environment.** Institutions of the modern state (such as taxes) were created to allow war-making, which became the core feature of the state.

Contemporary views toward private security firms are shaped by this history. The German political economist and sociologist **Max Weber** framed the issue. **The ultimate symbol of the sovereignty of a nation is its ability to monopolize the means of violence**—in other words, raising, maintaining, and using military force. Anything that erodes this relationship between the citizen and the state could weaken the central rationale for modern government.

Still, even during that evolution to state-sponsored violence private actors played significant roles. Private security is virtually as old as civilization, dating back to the times when man began to domesticate animals and graze his herds. People performing this function have been called many things: **soldiers of fortune, condotierri, free companies** (which is the root of the modern term freelancers), and, thanks to William Shakespeare's "Julius Caesar", **"dogs of war."** Some of the same criticisms levelled against private contractors today were made against the East India Company in the 17th and 18th centuries.

In fact, prior to the Napoleonic wars, **war was largely a commercial business.** Clausewitz essentially ignored the widespread use of mercenaries in Europe. On the eve of the **French Revolutionary wars**, **half the soldiers in the Prussian army** (200,000 in all) **were hired from abroad.** Even **Napoleon's armies relied on them.** **The best troops that Napoleon took with him to Russia were Italians who fought for money.** Some of the smaller German states hired out their own soldiers for profit.

**The British Royal Navy was a semi-privatized force.** It operated a prize money system under terms of the 'Cruizers and Convoys' Act of 1708, which was renewed at the beginning of each year (and indeed not repealed until 1917). The Admiralty issued letters of marque sanctioning private merchant men to seize enemy shipping. Over 10,000 were issued to private entrepreneurs in the course of the Napoleonic war(s). The private sector which engaged in this trade built heavily armed 'runners' which, though primarily engaged in trade, could defend themselves without having to call upon the Royal Navy.

Interestingly, foreshadowing contemporary debate, **the government had no alternative than to rely on the private sector for security services.** To have dispensed with its support altogether would have meant increasing taxation, and Britain by the end of the Napoleonic



Wars was already the most highly taxed of all the belligerent powers. British taxes were nearly twice as high as France (even though it had only half its population).

It was the introduction of the income tax in 1799 that turned the tide and made it possible to envision publicly subsidized armed forces for the first time. **Subsequently, privateers or private ships licensed to carry out warfare, helped win the American Revolution** and the War of 1812. In World War II, the Flying Tigers, American Fighter pilots hired by the government of Chiang Kai-Shek, fought the Japanese.

## 2.1 The historical development of private military forces – main cornerstones

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 Europe 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 assigned 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**.
- 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.

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

### 3.1 Peter W. Singer typology

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.<sup>2</sup> 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.<sup>3</sup>

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

#### **Type 1: Military provider firms**

Services offered: implementation/command

Examples: (Executive Outcomes, Sandline)

Very few companies offer direct military services. The two best known companies, Executive Outcomes and Sandline, have closed up shop at the end of the 1990's. This being said these companies have attracted lots of attention as they are without a doubt the most spectacular and make the best news headlines.

The most interesting case is that of the South African company Executive which was hired by the governments of Angola and Sierra Leone in the mid 1990's to fight rebel insurgencies.

#### **Type 2: Military consulting firms**

Services offered: Advice and Training

Examples: (MPRI, Vinnell)

Companies classified as type 2 by Peter Singer, specialize in Advice and training. There are many examples of firms that offer these services: MPRI who trained the Croatian Army in the 1990's (a case we will study in a latter section), Vinnell which as trained the Saudi forces for more than 20 years, or Dyncorp which is helping in the training of the new Afghan and Iraq armed forces, police forces and border patrols. These services are in high demand as western governments have expanded the military training aid to developing countries in the last few years.

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<sup>2</sup> P.W. Singer, "Corporate Warriors. The Rise of the Privatized Military Industry and It's Ramifications for International Security", p. 186-220.

<sup>3</sup> To this three categories, David Shearer adds two new ones: **security services** and **crime-prévention services** (David Shearer, "Private Armies and Military Intervention", Adelphi Paper, 316 (1998),). Deborah Avant, prefers to classify PMF by type of contracts (D. Avant, The Market for Force, Cambridge University Press, 2005)

It is also worth noting that armed forces like the Canadian armed Forces are also using these companies to train their own troops. A good example would be our own JTF2 using the facilities of Blackwater in South Carolina for part of the training.

These firms also offer other important security services like:

- Close protection
- Military bases security
- Convoy protection
- Army personnel protection (Corps of Engineers)

### **Type 3: Military support firms**

Services offered: supplementary services

Examples: (Brown and Root, Ronco, SNC-PAE)

The companies classified in this category have been the most successful in the industry. In short, this is where you will find the most money. Although not as spectacular as firms offering direct military assistance, the supplementary companies are the ones most often called upon by armed forces.

This is by no means a new phenomenon. Armies have relied on the private enterprises for logistical purposes for a long time. But demand for logistical services has skyrocketed since the First Gulf War.

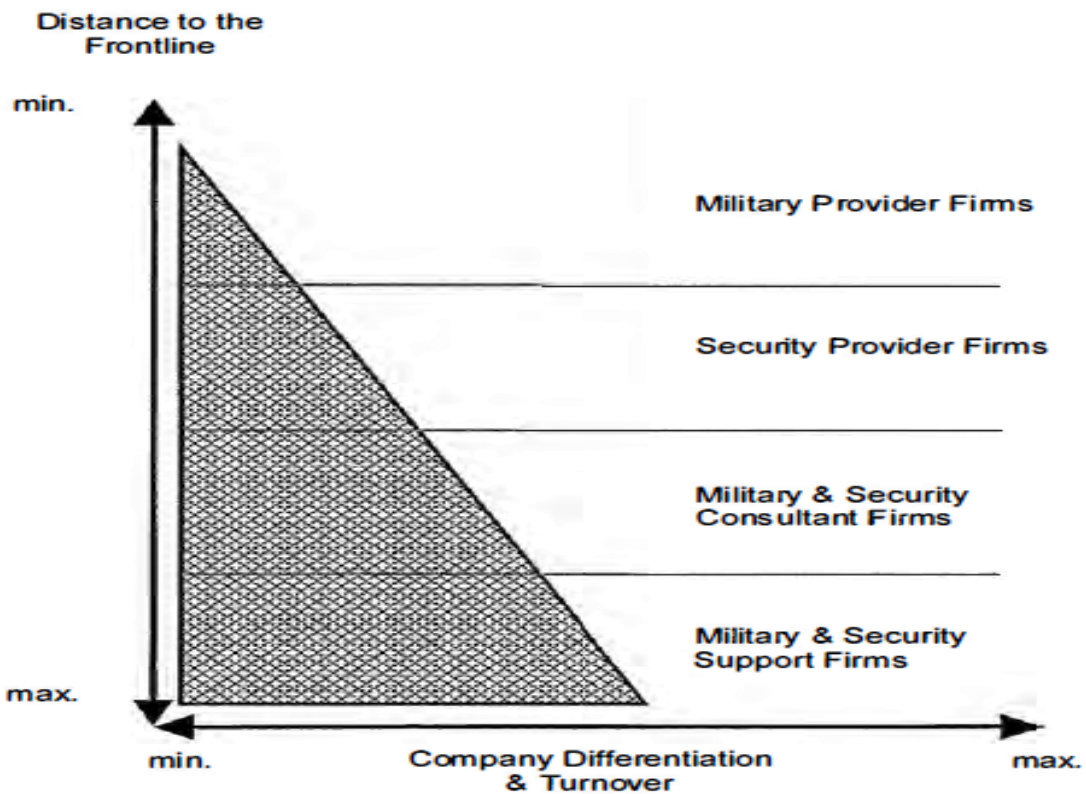
What type of work is done by supplementary services contractors (KBR, SNC Lavalin, PAE, ATCO ...) deployed on the battlefield? Next list show the best examples:

- cooking,
- laundry,
- general maintenance,
- equipment maintenance,
- engineering and construction,
- transport,
- waste disposal,
- communications (general and tactical),
- medical services,
- etc.

### 3.2 Differentiation of services; turnover and closeness of the theatre classification

Other approach to classification of PMCs is connected with differentiation of services; turnover and closeness of the theatre (see Figure XX)

**Figure XX** Typology come out from differentiation of services, turnover and closeness of the „theatre“



Sources:

## 4 CAUSES OF INCREASING IMPORTANCE OF PRIVATE MILITARY COMPANIES IN NOWADAYS THEATRE

### 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.

#### 4.1 The gap in the market of security

Massive disruptions in the supply and demand of capable military forces after the end of the Cold War provided the immediate catalyst for the rise of the privatized military industry. With the end of superpower pressure from above, a raft of new security threats began to appear after 1989, many involving newly emerging ethnic or internal conflicts. Likewise, nonstate actors with the ability to challenge and potentially disrupt world society began to increase in number, power, and stature. Among these were local warlords, terrorist networks, international criminals, and drug cartels. These groups reinforce the climate of insecurity in which PMFs thrive, creating new demands for such businesses.

An additional factor is that the Cold War was a historic period of hypermilitarization. Its end thus sparked a chain of military downsizing around the globe. **In the 1990s, the world's armies shrank by more than 6 million personnel.** As a result, a huge number of individuals with skill sets uniquely suited to the needs of the PMF industry, who were often not ready for the transition to civilian life, found themselves looking for work.<sup>19</sup> Complete units were cashiered, and many of the most elite units (such as the South African 32d Reconnaissance Battalion and the Soviet Alpha special forces unit) simply kept their structure and formed their own private companies. Line soldiers were not the only ones left jobless; it is estimated that 70 percent of the former KGB joined the industry's ranks.

Meanwhile, massive arms stocks opened up to the market: Machine guns, tanks, and even fighter jets became available to anyone who could afford them.<sup>20</sup> Thus downsizing fed both supply and demand, as new threats emerged and demobilization created fresh pools of PMF labour and capital.

At the same time, there has been a decrease in the capabilities of states to respond to many of the threats. Shorn of their superpower support, a number of states have suffered breakdowns in governance. This has been particularly true in developing areas, where many regimes possess sovereignty in name only and lack any real political authority or capability.

The result has been failing states and the emergence of new areas of instability. Given their often poorly organized local militaries and police forces, the security apparatuses of these regimes can be exceptionally deficient, resulting in a near military vacuum. Moreover, the almost complete absence of functioning state institutions has meant that outsiders have begun to assume a wider range of political roles traditionally reserved for the state. Among these is the provision of security.

The traditional response in dealing with areas of instability used to be outside intervention, typically by one of the great powers. The end of the Cold War, however, reordered these states security priorities. The great powers are no longer automatically willing to intervene abroad to restore stability. Devoid of ideological or imperial value, conflicts in many developing regions no longer pose serious threats to the national interests of these powers. In addition, public support is more difficult to garner. As a result, intervention into potential quagmires against diffuse enemies has become less palatable and the potential costs less bearable. Casualty figures beyond single digits are routinely seen as a political, and thus a military, defeat.

PMFs aim to fill this void. They are eager to present themselves as businesses with a natural niche in an often-complicated, post-Cold War world order. As one company executive explains, "The end of the Cold War has allowed conflicts long suppressed or manipulated by the superpowers to re-emerge.

At the same time, most armies have got smaller and live footage on CNN of United States soldiers being killed in Somalia has had staggering effects on the willingness of governments to commit to foreign conflicts. We fill the gap.

## **4.2 Transformations in the nature of warfare.**

Concurrent with the reordering of the security market are **two other critical underlying trends. First, warfare itself has been undergoing revolutionary change at all levels.** At high-intensity levels of conflict, the military operations of great powers have become more technologic and thus more reliant on civilian specialists to run their increasingly sophisticated military systems. At low-intensity levels, the primary tools of warfare have not only diversified but, as stated earlier, have become more available to a broader array of actors. As a result, the motivations behind many conflicts in the developing world are increasingly criminalized or defined by the profit motive in some way.

Both directly and indirectly, these parallel changes have heightened demand for services provided by the privatized military industry. Until recently, wars were decided by Clausewitzian clashes of great numbers of men fighting it out on extended fronts. **With the growing access to sophisticated technology, however, strategic consequences can now be achieved by relative handfuls, sometimes even by individual soldiers who are not even on the battlefield.** According to this concept of the "revolution in military affairs," the nature of the professional soldier and the execution of high-intensity warfare are changing. Fewer individuals are doing the actual fighting, while massive support systems are required to upkeep the world's most modern forces.

The requirements of high-technology warfare have also dramatically increased the need for specialized expertise, which often must be drawn from the private sector. **For example, recent U.S. military exercises reveal that its “army of the future” will be unable to operate without huge levels of technical and logistics support from private firms.** Other advanced powers are also setting out to privatize key military services. Great Britain, for instance, recently contracted out its aircraft support units, tank transport units, and aerial refuelling fleet—all of which played vital roles in the 1999 Kosovo campaign.<sup>27</sup> Another change in the postmodern battlefield requiring greater civilian involvement is the growing importance of information dominance (particularly when the military’s ability to retain individuals with highly sought-after and well-paying information technology skills is well-nigh impossible). As one expert notes, “The U.S. army has concluded that in the future it will require contract personnel, even in the close fight area, to keep its most modern systems functioning. This applies especially to information-related systems.

Information-warfare, in fact, may well become dominated by mercenaries.” At the same time, the motivations behind warfare also seem to be in flux. This has been particularly felt at low-intensity levels of conflict, where weak state regimes are facing increasing challenges. The state form triumphed because it was the only one that could harness the men, machinery, and money required to take full advantage of the tools of warfare. This monopoly of the nation-state, however, is over. As a result of changes in the nature of weapons technology, individuals and small groups can now easily purchase and wield relatively massive amounts of power. This plays out in numerous ways, the most disruptive of which may be the global spread of cheap infantry weapons, the primary tools of violence in low-intensity warfare.

Their increased ease of use and devastating potential is reshaping local balances of power. Almost any group operating inside a weak state can now acquire at least limited military capabilities, thus lowering the bar for creating viable threats to the status quo.

Importantly, this shift encourages the proliferation and criminalization of local warring groups. According to one expert in contemporary warfare, “With enough money anyone can equip a powerful military force. With a willingness to use crime, nearly anyone can generate enough money.” As a result, conflicts in a number of places (Columbia, Congo, Liberia, Tajikistan, etc.) have lost any of the ideological motivation they once possessed and instead have become more about petty groups fighting to grab local resources. Warfare itself thus becomes self-perpetuating, as violence generates personal profit for those who wield it most effectively (which often means most brutally), while no one group can eliminate the others. PMFs thrive in such profit-oriented conflicts, either working for these new conflict groups or reacting to the humanitarian disasters they create.

#### **4.3 The power of privatization and the privatization of power**

Finally, the last few decades have been **characterized by a normative shift toward the marketization of the public sphere.** As one analyst puts it, the market-based approach toward military services is “the ultimate representation of neo-liberalism.”

**The privatization movement has gone hand in hand with globalization:** Both are premised on the belief that the principles of comparative advantage and competition maximize efficiency and effectiveness. Fuelled by the collapse of the centralized systems in the Soviet Union and in Eastern Europe, and by successes in such places as Thatcherite Britain, privatization has been touted as a testament to the superiority of the marketplace over government. It reflects the current assumption that the private sector is both more efficient and more effective.

Harvey Feigenbaum and Jeffrey Henig sum up this sentiment: “If any economic policy could lay claim to popularity, at least among the world’s elites, it would certainly be privatization.” Equally, in modern business, outsourcing has become a dominant corporate strategy and a huge industry in its own right. Global outsourcing expenditures will top \$1 trillion in 2001, having doubled in just the past three years alone.

Thus, turning to external, profit-motivated military service providers has become not only a viable option but also the favoured solution for both public institutions and private organizations.

The successes of privatization programs and outsourcing strategies have given the market-based solution not only the stamp of legitimacy, but also the push to privatize any function that can be handled outside government. As a result, the momentum of privatization has spread to areas that were once the exclusive domain of the state.

The last decade, for example, was marked by the cumulative externalization of functions that were once among the nation-state’s defining characteristics, including those involving schools, welfare programs, prisons, and defense manufacturers (e.g., Aerospatiale in France and British Aerospace). In fact, the parallel to military service outsourcing is already manifest in the domestic security market, where in states as diverse as Britain, Germany, the Philippines, Russia, and the United States, the number of private security forces and the size of their budgets greatly exceed those of public law-enforcement agencies.

That the norm of privatization would cross into the realm of military services is not surprising. As Sinclair Dinnen notes, **“The current revival in private military security is broadly consistent with the prevailing orthodoxy of economic rationalism, with its emphasis on ‘downsizing’ government and large-scale privatization.”** The privatized military industry has thus drawn on precedents, models, and justifications from the wider “privatization revolution,” allowing private firms to become potential, and perhaps even the preferred, providers of military services.

#### **4.4 The complexity modern armament system**

The last factor that favoured the rise of the private military industry is the increasing complexity of modern armament systems. Many of the newer system are so complicated that armed forces have to deploy civilian to assure their good functioning and maintenance. The Patriot missile system and Unmanned Aerial Vehicles (UAV) are a good example of these complex systems which required the presence of civilians to make sure that they run well.



**These different factors are a major part of the reasons why private military contractors are now such an important feature on today's battlefields and military bases.** So now that we now why so many civilians are employed all over the world working on jobs that used to be reserved to active military personnel, it is important to understand what type of work they actually do.

## 5 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.

## 5.1 Benefits of PMCs usage

### Military effectiveness

Some analysts argue that PMCs offer **operational advantages** over regular military forces, such as:

- being **rapidly deployable**;
- **lessening** public **concerns** about the use of force (so called *black bags syndrom*) ; and
- acting as a **counterweight** to the local military in states with weak political institutions.

### Economic effectiveness

Claims that PMCs are **more cost-effective** than maintaining standing armies are usually based on the following arguments:

- PMCs can employ individuals that are **often paid significantly less**,
- governments may not need to provide PMCs with **“hidden” benefits** such as pensions, health care, living facilities, etc.,
- PMCs provide the ability to **quickly increase force size**, without the **costs involved in long-term maintenance** of military **capacity** or the “buyouts” that often occur when the military is subject to rapid reductions,
- by fulfilling essential non-combat operations, PMCs allow armed forces to **concentrate on core missions**.

## 5.2 Costs of PMCs usage

### Military effectiveness

In contrary PMCs have a number of operational **disadvantages** relative to regular military forces:

- motivated **by profit rather than duty**, their commitment is in general considered to be more limited than that of regular military personnel;
- their employees are **outside of the military chain of command**;
- their contracts **cannot cover every possible contingency in advance**, thus **reducing their combat flexibility** and possibly compromising their ability to deal with the unexpected;
- their non-combat personnel lack the **cross-training** that can **augment military capacity** in times of need.
- Firms have **delayed or ended operations because of increasing violence**. It was reported that after a *Kellogg, Brown and Root (KBR)* convoy was ambushed in April 2004, scores of *KBR* truck drivers refused to work until security was improved, and many contractors left the country, leaving the military with dwindling supplies in some areas of Iraq.

### Economic effectiveness

„Private military companies“ have to face up to many obstacles that are connected **with economic area**:

- because they tend to be paid on a **per contract basis** rather than as a function of the number of soldiers in the field, it is **difficult to compare the cost effectiveness** of PMCs vs. the regular military;
- PMC personnel often receive **state provided training** as members of national armies; when they leave for better-paying jobs in the private sector, this training is **effectively a subsidy** for PMC operations.
- standard **subcontracting practices**, in which a contract may pass through several different firms, can significantly reduce or reverse any gains in efficiency.
- some analysts believe that pressure **to cut costs in these companies** can lead to decisions that **risk the lives of their personnel**; for instance:
  - after when four **Blackwater** contractors were killed in Iraq in 2004, allegations emerged that a fifth soldier to serve as a rear guard was kept from joining the group because of financial constraints.

- **Supposed cost effectiveness**
  - Data on the cost-effectiveness of PMCs is inconclusive. PMC employees can be quite expensive; typical salaries range from US \$ 400-1000 a day. Claims that PMCs are more cost-effective are a bit arguable.
  - In „Shadow Company“ is stated: „..... *What I earn in week, ordinary member of army has in month, so why do not do the same job for much better money*“. Monthly salary of PMCs member was stated about 3000 US \$ in this documentary picture.
- **Growing costs** connected with payment for services provided by private military companies.
  - The military's **ability to retain talented soldiers** has been **hampered**. The US Special Operations Command **has formulated new pay, benefit, and educational incentives to try to retain them**, while in the UK the armed forces now offer elite soldiers year-long 'sabbaticals' to allow them to serve with PMCs in Iraq.
- According to the Federal Procurement Data System – Next Generation (FPDS), DOD obligated approximately **\$27.2 billion on contracts** in the Afghanistan and Iraq theaters of operations **in FY2010**,
  - representing **17% of DOD's total war obligations** in the Afghanistan and Iraq theaters of operations.
- From **FY2005 through FY2010**, DOD obligated approximately **\$146 billion on contracts** in the Iraq and Afghanistan theaters of operations
  - **representing 18% of total war spending** for operations in Afghanistan and Iraq.

## 6 CAUSES OF THE PMCS FAILURE

Between the main crucial causes of failure are categorized follow examples of failure:

- **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)

### 6.1 Typical manifestation of PMCs failures

In some cases, contractors appear to **have offered inadequate training to their personnel**.

- A US Army report in October 2005 blamed the November 2004 deaths of four *Blackwater* contractors in a plane crash on violations of numerous governmental regulations, including not providing proper in-country training for the pilots.
- ***Blackwater* officials denied these charges.**

Companies have operated under cost-plus contracts that can make fraud more probable, as has been alleged in the case of *Halliburton's KBR* division.

- The US Army has challenged some \$1.8 billion of *Halliburton's* charges for work in Iraq because of insufficient documentation.
- **Examples:**
  - Sanitation services
  - Purchase of unnecessary things
  - Rides of empty trucks
  - Destruction of trucks due to slight malfunction (i.e. Flat Tire)
  - High price accommodation for contractors

## FOR BETTER UNDERSTANDING PROBLEM



Companies **have operated under cost-plus contracts** that can make fraud more probable, as has been alleged in the case of *Halliburton's KBR* division.

The US Army has challenged some \$1.8 billion of *Halliburton's* charges for work in Iraq because of insufficient documentation.

### Real an examples:

**Marie de Young**, a Halliburton **logistics specialist**, testified about subcontracts under which Halliburton paid \$45 per case of soda and \$100 per 15-pound bag of laundry.

**Mrs. de Young** also disclosed that Halliburton refused the Army's request to move Halliburton employees from a five-star hotel in Kuwait, where it cost taxpayers approximately **\$10,000 per day** to house the employees, into air-conditioned tent facilities, which would have cost taxpayers under **\$600 per day**.

**Henry Bunting**, a Halliburton **procurement officer**, described how he and other buyers were instructed **to split large purchase orders into multiple purchase orders below** \$2,500 in order to avoid the requirement to solicit multiple bids. Supervisors routinely told the employees responsible for purchasing: "Don't worry about price. It's cost-plus."

**David Wilson**, a convoy commander for Halliburton, and James Warren, a Halliburton truck driver, testified that **brand new \$85,000 Halliburton trucks were abandoned or "torched" if they got a flat tire or experienced minor mechanical problems**. Mr. Warren brought these and other concerns to the personal attention of Randy Harl, the president and CEO of KBR. **Mr. Warren was fired a few weeks later.**

**Reps. Henry A. Waxman and John D. Dingell** began **to raise questions about Halliburton's RIO contract** soon after it was awarded. In a series of letters, they provided evidence that **Halliburton's prices to import gasoline** from Kuwait were inflated, concluding that Halliburton appeared **to be charging twice as much as** it should have for fuel imports. Independent experts agreed, characterizing Halliburton's fuel charges as **"highway robbery" and "outrageously high"**.

## CONCLUSION

We can characterize the market of private military companies by force following notices:

- 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 fulfil 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

## TASKS FOR SELFSTUDY



1. Try to explain terms “Mercenary (ies)”, “Private Military Companies”, Private Security Companies”. What is your sense of the difference between "contractors" and "mercenaries?" Is there one? Give some examples of identical and different their characteristics.
2. What are the historical roots of PMCs usage? Many think that what is going on today with private contractors is an echo to the use of mercenaries and other uses of private troops in history. Give some outline of historical development of Mercenaries and Private Military Companies usage. How is today's situation comparable to a time of the past? How is it different?
3. Describe the structure of PMCs market. What roles in fighting wars should be handled by the military and what should be outsourced?
4. Try to judge /evaluate/ the advantage and disadvantage usage of private military firms by National states for outsourcing some defense and military functions and other with defense and security linked services.
5. Do private military companies save money or not? Why or why not? What kind of experiences did the national states make from Persian Gulf, Iraq or Afghanistan theatre? Try to find out some (financial) scandals linked to defense or military outsourcing, describe and explain them.
6. Choose some examples of Private Military or Security Companies and characterise them (history, number of employees, provided services, scope of “armoury”, earned “fortune” a so on). Do you know if your national armed forces use private military companies services? Do you know any PMSCs which come from your country? This question can be chosen more than once.
7. What does the rise of the private military industry say about the role of nation-states in global security in the 21st century? What will the private military industry look like 20 years from now?



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