



Book Prophets of War

Lockheed Martin and the Making of the Military-Industrial Complex

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Recommendation

Muckraking author William Hartung delves into the military-industrial complex with a corporate profile of its largest, most successful beneficiary, Lockheed Martin. Lockheed has survived bankruptcy and lean financial times, and Hartung contends that it has thrived in part through questionable business practices, milking taxpayers of billions and abetting Pentagon malfeasance. Hartung weaves a tale of the interface of armaments and politics, and says alleged Pentagon incompetence benefited both Lockheed and individual states with pork-barrel military projects. This complex, well-told story states that Lockheed eventually garnered \$25 billion annually in defense contracts and now plays an outsized role in affecting US foreign policy. *BooksInShort* recommends this book as important background reading about the corporate-military complex, the shadowy processes that may affect policy and in the economic history of the US defense industry.

Take-Aways

- Allan and Malcolm Loughead (“Lockheed”) launched their aviation firm in 1916.
- In 1918, Lockheed received its first government contract from the US Navy: \$90,000 to build copies of a Curtiss aircraft.
- During World War II, US aircraft production increased 13,5%, as the industry built more than 300,000 military planes.
- After WWII, Lockheed lobbied for a “defense industrial base,” based on Federal purchases, which it claimed would reduce the per-unit price of military aircraft.
- The company forged a special relationship with the National Security Agency.
- In 1971, Lockheed received a \$250 million government bailout.
- The company routinely paid bribes in Japan, Holland, Germany and other nations.
- Recently, Lockheed Martin expanded into police training, domestic surveillance and the interrogation of prisoners at Guantanamo Bay, Cuba.
- Lockheed Martin has 52,000 IT personnel with high-level security clearances and generates \$40 billion in revenues from US intelligence operations.
- Today, Lockheed Martin is the world’s largest defense contractor and private intelligence operation.

Summary

Soaring in California

In 1916, shortly after Wilbur and Orville Wright’s first flight, brothers Allan and Malcolm Loughead (pronounced “Lockheed”) of Burbank, California, started the Loughead Aircraft Manufacturing Company.

The brothers – who had minimal educations – first became interested in aviation in 1905 at ages 16 and 18, when their half brother Victor took them to see gliders

soaring over Santa Clara, California. Allan, who learned to fly a Curtiss biplane, became a county-fair pilot. When he crashed in 1911, he promised his wife that he would end his barnstorming career. Nonetheless, in 1913, at a cost of \$4,000, Allan and Malcolm launched their first plane for a test flight over San Francisco Bay, reaching a top speed of 63 miles per hour. When the plane crashed, their main investor impounded it. By 1915, they were back in business, giving air rides at the Pacific-Panama Exposition. They made a profit, turned their attention to selling their “flying boat” to the US Navy and launched their manufacturing company in 1916. Recognizing their limited staff and capital, they hired Jack Northrup, a self-taught engineer, who formalized their design process. By 1918, they received their first Navy contract –\$90,000 to build two copies of a Curtiss design.

“When an arms company starts bragging about how many jobs its pet project creates, hang onto your wallet.”

World War I launched the business of military aviation. Europeans produced more than 7,000 aircraft in 1918 alone; US General Hap Arnold chastised government and industry for failing to produce any planes at all. After Congressional hearings, the US adopted a cost-plus business model that reimbursed aviation firms’ expenses and attached an automatic profit. But US aviation slumped in 1919, so Malcolm went to Hollywood to rejoin the auto industry. Allan built a Northrup-designed “Sport Bi-Plane,” but it never found a market, and the company closed. He recruited new investors, including Fred Keeler, who founded the Lockheed Aircraft Corporation in 1926. After building the successful Vega, the investors sold the firm to Detroit auto executives, who renamed it the Detroit Aircraft Corporation. Allan left and started two other airplane manufacturers in 1930 and 1937. The Detroit Aircraft Corporation went bankrupt in 1932.

“The Loughead brothers [were] carnival performers who had become enmeshed in the birth of the aviation industry.” (aviation chronicler Wayne Biddle)

A company called Stearman-Varney bought the firm’s assets. Its main investor, Robert Gross, and other investors from US and foreign aviation firms and airlines bought the company for \$40,000 and kept the Lockheed name. Gross, despite his distaste for the New Deal, accepted a \$150,000 loan from the Federal Reconstruction Finance Corporation to build the M-10 Electra transport. He said the project would create jobs. Soon, Lockheed was building 148 styles of the Electra and selling it to the US military and 13 civilian airlines. Gross also sold to the Japanese and to Nazi Germany. With sales split between domestic and international buyers, Lockheed remained profitable during the Depression. In 1938, Lockheed inked its largest deal ever: The British Royal Air Force ordered 200 Hudson bombers, a military variation of the Super Electra. By 1942, the British had purchased 1,700 Hudsons, and Lockheed employed 50,000 workers.

Wartime Surge and Peacetime Slump

World War II increased aircraft production by 13,5%, as the industry produced more than 300,000 military planes. After the war, production crashed. To save Lockheed, Gross sought federal assistance, including prohibitions against dumping military transport planes onto the commercial market. Citing his industry’s essential role in national security, Gross asked the feds to give manufacturing equipment to aircraft companies and to subsidize production. Gross and other aircraft manufacturers adopted a position as an industry that the US needed to spend more on military aircraft. They proposed a pro-industry federal advisory board. In 1947, President Harry Truman created the Air Policy Commission, which interviewed 150 witnesses, all of whom had a vested interest in expanding the aircraft industry. The Commission said the military should prepare for World War III with a sharp increase in Navy and Air Force combat aircraft. Testifying to the Commission, Gross lobbied for a “defense industrial base” built on substantial multiyear purchases designed – he claimed – to reduce the per-unit price of military aircraft.

Lockheed’s “generous deals were compounded by a lack of effective oversight and minimal accountability for any malfeasance carried out with the taxpayer’s money.”

The Korean War reinvigorated aircraft production. Industry employment reached 600,000. Lockheed expanded into the emerging aerospace industry, producing armaments such as the Navy’s submarine-launched Polaris antiballistic missile and the infamous U-2 spy planes for its new customer, the US Central Intelligence Agency (CIA). In the course of a decade, Polaris netted Lockheed \$3.5 billion in contract awards. By 1962, Lockheed had posted its biggest profits, earning large revenues from the Agena rocket. But by the late 1960s, Lockheed was in financial trouble due to the cost overruns and mechanical woes of its C-5A Galaxy cargo plane, the largest military aircraft ever built.

The Lockheed Lobby

To get the C-5A contract, Lockheed bid against Boeing and lobbied heavily in Georgia, where the plane would be built. Lockheed pressured Georgia senator Richard Russell, who chaired both the Senate Armed Services Committee and the Senate Appropriations Committee’s Defense Subcommittee. Lockheed also proposed building a plant in Charleston, South Carolina, home of Representative L. Mendel Rivers, chair of the House Armed Services Committee. Rivers became an outspoken advocate for Lockheed’s bid, despite its huge cost overruns.

“Doling out contracts according to the financial needs of the arms makers rather than the merits of a particular weapons design is a long-standing practice in the military-industrial complex.”

The Pentagon itself was Lockheed’s powerful, silent partner. The military had a vested interest in preserving California’s defense industrial base of factories, equipment and laboratories. The Air Force overruled the four generals on its own selection board and awarded the C-5A contract to Lockheed, citing its lower price. This proved a costly mistake for US taxpayers. The C-5A project was the first built under a “total package procurement” (TPP) contract. TPP allowed firms to win contracts based on estimates of their research, development and manufacturing costs, reaching sometimes up to a decade into the future. While TPP contracts had penalty provisions for missed deadlines, companies could submit low estimates and then revise them upward, sometimes by billions. TPP had many loopholes, all leaning toward favored defense contractors.

“Equating the aircraft industry’s interests with the national interest was to serve Lockheed and its rivals well.”

By 1964, the C-5A project was over budget by an estimated \$2 billion. The Air Force, however, told Congress the plane was on budget and fired one of its own cost analysts who had testified about monetary waste. General Accounting Office (GAO) reports in 1970 stated that the plane had significant technical problems with its wings, avionics and landing gear. These problems meant the C-5A could not complete its assigned mission, but the Air Force accepted the planes anyway. Lockheed completed only four planes from the first order, but when it suffered financially, the Air Force bailed it out by ordering 57 more C-5As costing 240% more than the

original projected cost. In 1977, problems with the plane's wings and cargo door prompted new fears, but by 1980 the mechanisms had not been repaired. When the Air Force needed more transport planes, it pushed for Lockheed's C-5B model and invited the firm to write the Defense Secretary's brief endorsing its own plane.

"The problem with buying influence is you can never be sure if your connections will stay bought."

Senator William Proxmire said the C-5A was built in a federally owned plant, using government-owned machinery and with government payments covering up to 90% of the actual costs. Lockheed used income from C-5A cost overruns to prop up its ailing passenger plane, the L-1011 Tristar airliner. Lockheed also negotiated favorable rent in a federally owned plant to build the L-1011. Yet with all its contracts, Lockheed faced bankruptcy. In 1971, it received a \$250 million bailout in the form of a federal loan guarantee by citing the "too big to fail" argument. Lockheed soon sought \$1.3 billion more in funds, plus generous allowances for its cost overruns.

Bribery and Overpricing

In the late 1950s, Lockheed went after a \$130 million contract from Japan's Nippon Airlines for its large passenger plane, the L-1011. Lockheed's president, A. Carl Kotchian, hired a Japanese influence peddler, Yoshio Kodama. Kotchian soon approved the payment of two bribes, totaling \$3.4 million, to Japan's Prime Minister Kakuei Tanaka and his crony. After an unexpected request for \$150,000 more in bribe money, Lockheed won the Japanese contract.

"The symbiotic relationship between Lockheed and the Pentagon was set out early in the [report] when it noted that Lockheed would be responsible for drafting the Defense Secretary's position paper on the C-5B."

Lockheed used bribery in 1958 to sell F-104 fighters to Germany. For 20 years it directed cash payments to pivotal officials in Holland, including Prince Bernhard, husband of Queen Juliana. In Italy, Lockheed paid \$2 million in bribes to sell \$60 million worth of cargo planes. It paid special commissions to agents in Turkey, Indonesia, Colombia and Saudi Arabia. Lockheed employed middlemen, so its bribes would be seen as commissions and thus eligible as tax deductions. The Securities and Exchange Commission and a Senate subcommittee investigated the bribes, eventually forcing the resignations of Kotchian and Lockheed CEO Dan Haughton, the imprisonment of Japan's Tanaka, the criminal trials of two former Italian defense ministers and the public shaming of Prince Bernhard.

New Markets: NATO and Iraq

Lockheed merged with Martin Marietta in 1995 and became Lockheed Martin. It then sought new markets overseas using US Defense Department subsidies. Its strategy exploited a \$15 billion fund that gave low-rate, US government-backed loans to nations that needed weapons. This was similar to a 1970s and 1980s program that the US discontinued when borrowers failed to repay \$10 billion. The fund proved a taxpayer-sponsored gift to defense contractors and certain nations.

"Lockheed's TTP-based contract had been generous, just not generous enough to reward it for one of the largest cost overruns in the history of military procurement."

Lockheed executives identified an expanded NATO and breakaway nations of the former Soviet Union as new customers. Company executives told Romanian officials that if they bought its radar system, Lockheed would pressure Washington to admit Romania into NATO. In 2003, Lockheed sold \$3.8 billion worth of F-16s to Poland via a US taxpayer-subsidized loan that covered 100% of the price. Lockheed transferred \$3 billion in "offsets" to Poland, which created new jobs that could have gone to American workers.

US Secretary of Defense Robert Gates "noted the need to cancel weapons systems that were 'grotesquely over budget' and 'increasingly detached from real-world scenarios'."

In 1990, Lockheed moved into the private sector in Texas, piggybacking onto programs related to privatizing social services. Lockheed executives were also involved in the Project for the New American Century (PNAC), a group of neoconservatives who advocated increased defense spending. The members of PNAC included future US Vice President Dick Cheney, whose wife, Lynne, served on Lockheed's board from 1994 to 2001. More than half a dozen Lockheed executives joined George W. Bush's administration, including Peter Teets, who became Undersecretary of the Air Force; Norm Mineta, who headed the Transportation Department and Bruce Jackson, who took a senior position at the Department of Homeland Security. During his tenure, Lockheed received more than \$650 million in federal contracts.

"If there was ever a need for the engagement of awareness urged by President Eisenhower, the Lockheed Martin story makes it clear that the time is now."

In 1998, conservative politicians such as Newt Gingrich and Donald Rumsfeld, and special interest groups like Empower America, worked with defense contractors to gain enormous missile defense expenditures – carrying projected costs of more than \$100 billion – to protect the US against vaguely defined potential threats. Lockheed proved a prime mover because it had vital interests in missile defense and offense in the air, sea, ground and space. By the end of President Bill Clinton's administration, Lockheed earned \$1 billion annually from missile defense contracts. Since the 1950s, the company has nurtured a special relationship with the National Security Agency and is developing unmanned surveillance vehicles.

Lockheed Martin "is involved in almost everything the Federal government does."

After the Iraq War, Lockheed expanded into police training and domestic surveillance. Its employees interrogated prisoners at Guantanamo Bay, Cuba. An estimated 75% of the US intelligence budget goes to private contractors, and Lockheed takes the biggest share, with 52,000 IT personnel with high-level security clearances bringing in \$40 billion in revenues. Its services include collecting data on citizens suspected of drug sales, espionage or terrorism, as well as collecting credit card, phone and personal data. In the late 1990s, the company was involved in the global collection of faxes, phone calls and emails, including eavesdropping on a call from Senator Strom Thurmond. Lockheed Martin is now the world's largest defense contractor and private intelligence operation.

About the Author

William Hartung, Director of Arms and Security Initiatives at the New America Freedom Foundation, has written for *The New York Times*, *The Washington Post* and the *Los Angeles Times*.
