

February 19, 2004 | home

THE NEW YORKER
ONLINE ONLY**Q. & A.****The Vice-President and the Contractor**

Posted 2004-02-13

In "Contract Sport," in this week's issue, Jane Mayer reports on how Halliburton, the company that Dick Cheney served as C.E.O. before running for Vice-President, became the single largest defense contractor in Iraq. Here, with *The New Yorker's* Amy Davidson, Mayer talks about Cheney's past, the privatization of the military, and Washington's revolving door.

AMY DAVIDSON: Vice-President Cheney insists that he's broken all ties to Halliburton, his old company. Has he?

JANE MAYER: To crib from the previous Presidency, the answer depends on what your definition of "ties" is. Is there any evidence that Vice-President Cheney personally directed the government to give contracts to Halliburton? No. Is there any evidence that he personally has been enriched by those contracts? Not directly. But Cheney's insistence that he has no ties to the company is rather legalistic, and misleading. He still earns approximately a hundred and fifty thousand dollars a year in deferred compensation from Halliburton. He also still holds some eighteen million dollars in stock options, although he has pledged this bounty to charity. But, beyond the immediate financial ties, there is the larger question of what, over time, he has done for the company, and what it has done for him. Cheney earned some forty-five million dollars from Halliburton during his five-year tenure there, from 1995 to 2000. And Cheney is, in many ways, the architect of the contract that gave the company its signal role with the U.S. military today.

When Cheney was Secretary of Defense, during the first Bush Administration, he oversaw a redesign of the way that corporate America services the military. Halliburton was paid \$3.9 million to draw up a plan for the way a private company could provide military support to U.S. troops all over the world. Then, in the last months of that Administration, Halliburton was awarded the Army's contract to provide those very same services. The company's familiarity with the process, the experts I spoke to said, gave it the inside track on what has turned out to be billions of dollars of government business. Cheney is unlikely to have been involved in choosing Halliburton in any detailed way, but even his supporters acknowledge that he oversaw the shift to providing so much business to a single company. This ties him to the story today.

Halliburton won a no-bid contract to provide services in Iraq. Was there anything irregular about the process that led to the award?

A better adjective than "irregular" might be "unusual." The controversial no-bid contract was awarded to Halliburton under proper, but rare, "emergency" circumstances. When the Pentagon planned for the war in Iraq, it believed that Saddam's soldiers were likely to sabotage the country's oil wells. Halliburton, of course, had expertise in the extinction of oil-well fires. The company had already won the exclusive contract to support the U.S. troops, which was competitively bid, and so the Pentagon reasoned that they might as well extend the oil-well-fire contract to Halliburton, too. This decision, however, sidestepped the usual procurement process, since there was no competition. It also was odd in that there turned out to be very few oil-well fires, and so the original task was allowed to morph into a much larger one of restoring the oil industry to its prewar levels. As a result, the amount of business that was awarded to Halliburton under the no-bid contract ballooned to as much as seven billion dollars' worth.

Some of Halliburton's defenders have said that there aren't any other companies that are up to the job. Is that a fair point?

This is a fair point, but it raises other questions. The original reason for bringing private military contractors in to handle these jobs for the Pentagon—rather than having the government do them itself—was that the rigors of a competitive marketplace were supposed to drive down costs. But if there is virtually no competition then the situation is more monopolistic than competitive, and cost efficiencies are lost. So it's not much of a defense of the current system to say that no other companies can do what Halliburton can.

Cheney became very rich very fast at Halliburton. In the 2000 Vice-Presidential debate, he said that his success owed nothing to the government. Did it?

The government helped make Cheney rich. While Cheney was in the private sector, working as Halliburton's C.E.O., he spent a great deal of his time personally lobbying for government credit guarantees, and he increased the number of subsidies to the company hugely. So, after years of championing the private sector and opposing big government, Cheney's own business career was very much dependent upon the federal government.

How did his time in private industry shape the kind of Vice-President that Cheney became?

I found it particularly interesting that Cheney, according to several sources, came to distrust the C.I.A. because of an experience he had at Halliburton. Cheney felt that the C.I.A. had been duped into opposing a Russian oil deal that Halliburton wanted. The C.I.A.'s concerns, Cheney believed, were based largely on false accusations generated by rival companies. It seemed possible that the distrust Cheney exhibited toward the C.I.A. regarding Iraq may have stemmed in part from that incident.

You mention in your article that there is a long history of politically connected companies receiving contracts—one example is a Halliburton subsidiary, Brown & Root, which benefitted from its ties to Lyndon Johnson. Isn't this just how business is done in Washington?

The Halliburton story can be seen as the old Washington revolving-door story, but on steroids. The sums of money involved are gigantic compared with those of the past. What also gives the Halliburton story a new degree of significance is that it illustrates the consequences of years of government privatization. Military contractors such as Halliburton have become more and more important, while the bureaucrats who are supposed to oversee them have been diminished. The result is a shift of power, in which some experts fear that the companies are virtually unmanaged by the government. Cheney is a lifelong champion of privatization, so it's fair to see the current mess surrounding Halliburton's dealings in Iraq—for instance, that it overcharged the government for fuel—as an unintended consequence of his political approach.

One striking detail in your article is that, if not for private contractors, the U.S. might need to have more than twice as many troops in Iraq. Are we headed for a privatized military?

When private, for-profit companies become such a big part of America's military might, a growing portion of the U.S. budget falls outside the public scrutiny that would normally exist if the same functions were performed by civil servants. Private military contractors aren't necessarily subject to the Freedom of Information Act, nor are they governed by federal government-ethics rules. So there is less openness and accountability. One Democratic congresswoman told me she worries that this will lead to "secret wars."

You mention that a number of other Administration insiders and associates, like Joe Allbaugh, Bush's former campaign manager, are angling for a share of the money going

into Iraq. Is there a feeding frenzy going on?

Given the billions and billions of U.S. government dollars up for grabs for contractors in Iraq, there is, unsurprisingly, a feeding frenzy. But the mood among U.S. investors has been dampened somewhat by the difficult security situation there. Investors want to know what will happen to their businesses when the U.S. pulls out of Iraq.

There was an outcry a few months ago when it was announced that companies based in nations that hadn't supported the war wouldn't be allowed to bid on contracts. The Administration argued that those who hadn't taken the risks of war shouldn't profit from it. Is it reasonable to use contracts as political rewards?

Reasonable or not, political patronage, in the form of giving out fat government contracts, is alive and well in Iraq. Critics, such as retired Air Force Colonel Sam Gardiner, told me that they see the Pentagon's move toward private contractors as a deliberate patronage system. Companies that support the Administration, Gardiner thinks, are rewarded with contracts. In turn, these companies contribute to the Administration's political campaigns.

Sovereignty is supposed to be restored to the Iraqis in July. Will that include sovereign control of the contract system?

This remains to be seen. It's unlikely that the U.S. would cede control of its own funds to the Iraqis. But there is a lot of confusion surrounding the process, according to those involved.

It's been a rough couple of weeks for Cheney. There have been questions about the propriety of a hunting trip he took with Supreme Court Justice Antonin Scalia, at a time when the Administration has a case before the Court. And a number of his staffers have been interviewed by the F.B.I. or have appeared before a grand jury investigating the leak of the identity of Ambassador Joseph Wilson's wife, an undercover C.I.A. agent. Is Cheney in trouble?

It's hard to know what the real facts are in some of these cases, such as the C.I.A. leak. However, there is a lot of talk in Washington about whether Cheney's ties to Halliburton have made him a political liability. Some have even suggested that he might be booted off the 2004 ticket. At the moment, this seems close to unthinkable. But it's safe to say that all of these flaps have been problems for Cheney, because they call into question what was billed during the last election as his greatest asset: his judgment. ♣