

EXECUTIVE EXCESS: CEO COMPENSATION IN THE ARMS INDUSTRY, 2020

William D. Hartung with Leila Riazzi | Arms and Security Program

On April 9th, the Biden administration announced a proposal for Pentagon spending and related nuclear weapons work at the Department of Energy in excess of \$750 billion – three-quarters of a trillion dollars.¹ This is substantially higher than the peak levels of the Korean and Vietnam Wars and the Reagan buildup of the 1980s.² These enormous sums for the Pentagon are often justified as necessary to meet the needs of military personnel, but in fact, roughly half of the Pentagon’s budget is spent on corporations like Lockheed Martin, Boeing, General Dynamics, Raytheon Technologies, and Northrop Grumman, as well as the hundreds of thousands of private contractors employed by the department.³ The top five contractors alone received over \$150 billion in Pentagon contracts in Fiscal Year 2020. Not all of these funds are well spent. Cost overruns and performance problems, expenditures on weapons systems that are not relevant to current security challenges, and investments in weapons that actually make the world a more dangerous place all detract from, rather than enhance, America’s security.⁴ There is also widespread waste and excess overhead within the Pentagon, which is the only major federal agency that has never successfully passed an audit.⁵



“Sky’s the limit” by Jared Rodriguez/TruthOut/Flickr

1 Rebecca Kheel, “Biden Requests \$753B Defense Budget, A Slight Increase,” The Hill, April 9, 2021, <https://thehill.com/policy/defense/547340-biden-requests-753b-defense-budget>

2 William D. Hartung and Ben Freeman, “Sustainable Defense: A Pentagon Spending Plan for 2021 and Beyond,” Center for International Policy, December 2020, https://3ba8a190-62da-4c98-86d2-893079d87083.usrfiles.com/ugd/3ba8a1_84180a1b3cdf478f8023d8ca96cb682a.pdf

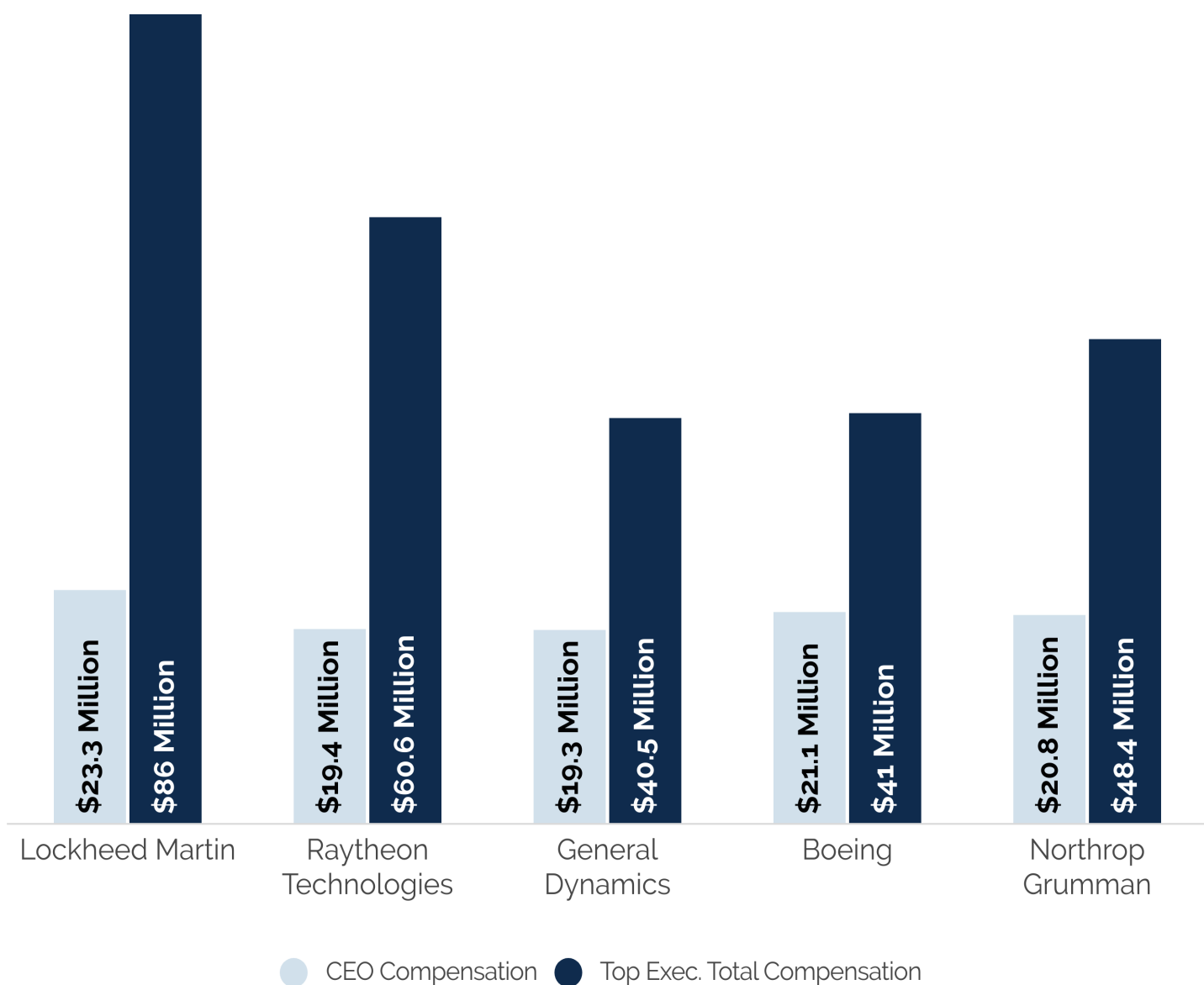
3 Heidi Peltier, “The Growth of the ‘Camo Economy’ and the Commercialization of the Post-9/11 Wars,” Costs of War Project, Brown University, June 30, 2020, <https://watson.brown.edu/costsofwar/files/cow/imce/papers/2020/Peltier%202020%20-%20Growth%20of%20Camo%20Economy%20-%20June%2030%202020%20-%20FINAL.pdf>

4 Winslow Wheeler and Dan Grazier, “F-35 Changes Needed While Still in Infancy,” Project on Government Oversight, April 7, 2021, <https://www.pogo.org/analysis/2021/04/f-35-changes-needed-while-still-in-infancy/>; William D. Hartung, “The New ICBM Is a Legacy System, and Should Be Canceled,” Defense One, March 12, 2021, <https://www.defenseone.com/ideas/2021/03/new-icbm-legacy-system-and-should-be-cancelled/172619/>

5 Mandy Smithberger, “The Pentagon Budget Is Out of Control,” The Nation, March 3, 2020, <https://www.thenation.com/article/politics/pentagon-budget-white-house/>

One indicator of Pentagon waste can be found in the huge sums paid to the CEOs and other top executives of the nation’s five largest weapons contractors. In 2020 alone, the CEOs of the top five contractors received a total of \$105.4 million in compensation. When other major executives at these firms are taken into account – those holding the top positions at each firm whose salaries are required to be publicly disclosed– total executive compensation at the major contractors comes out to \$276.5 million for 2020 (See Table 1). Total compensation for major executives of the top five contractors exceeded \$1 billion in total for the four years from 2017 to 2020.

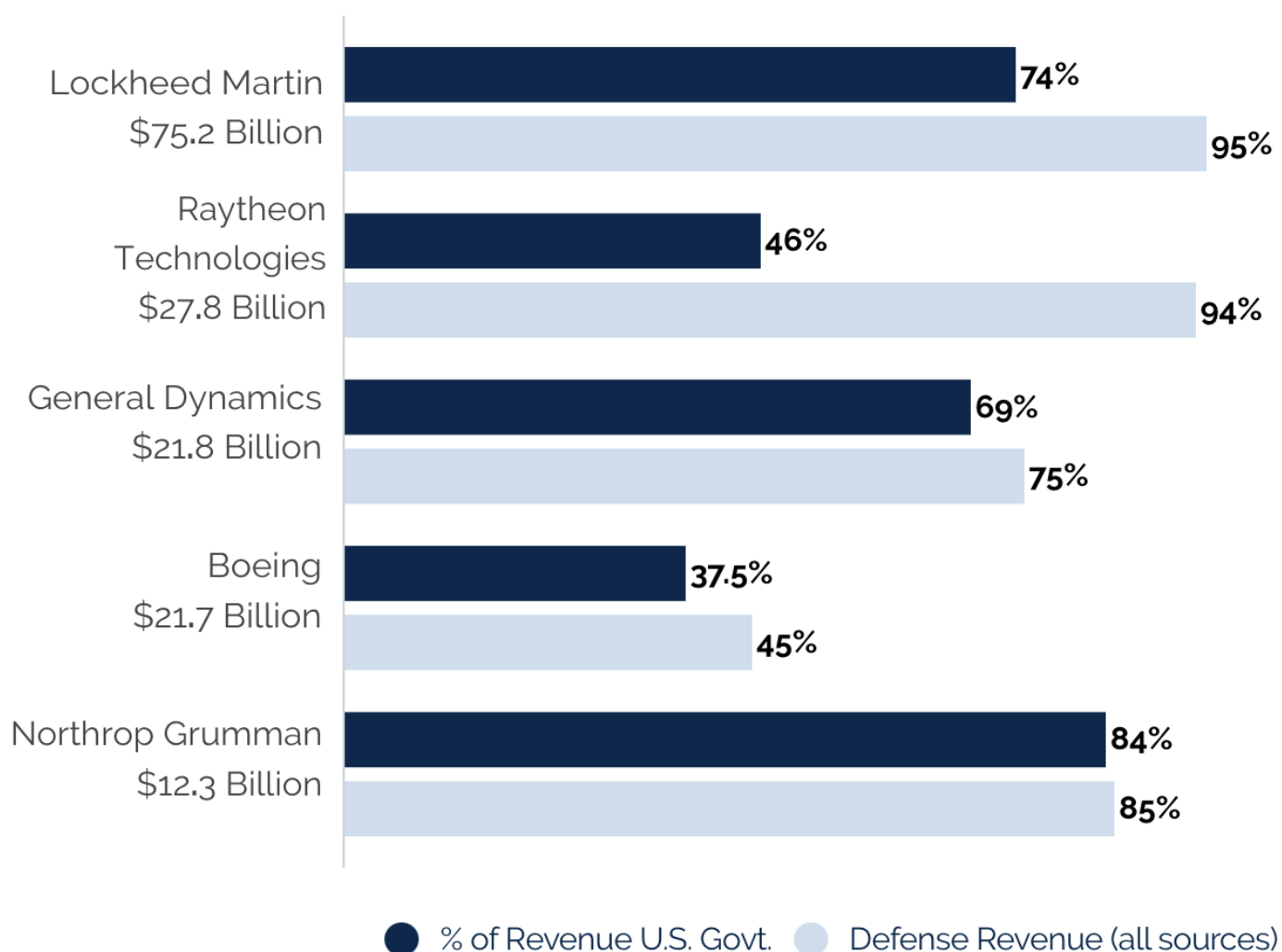
Table 1: Executive Compensation Top Five Pentagon Contractors 2020 (in millions of dollars)⁶



⁶ Company 10K reports and Proxy Statements for 2020. The top executives include the highest paid individuals at the firm, which, in addition to the CEO, may include the Chief Financial Officer (CFO), heads of major divisions, the general counsel, or the other highest-ranking positions within the firm – five to seven executives per firm for the companies covered in this table, and a total of 29 positions in all. All of the listed executives have compensation packages well in excess of \$1 million per year.

The top five firms receive a substantial portion of their revenues from taxpayer dollars, in the form of Pentagon contracts (see Table 2), meaning that a portion of the salaries they pay their executives are subsidized by taxpayers. For four of the top five contractors, defense revenues accounted for three-quarters or more of their business in 2019, the last year for which full figures are available for this measure, which includes sales to both the U.S. governments and foreign governments. When just sales to the U.S. government are taken into account the figures range from roughly 37.5% for Boeing, which makes commercial aircraft, to 84% for Northrop Grumman, with figures available as of 2020.

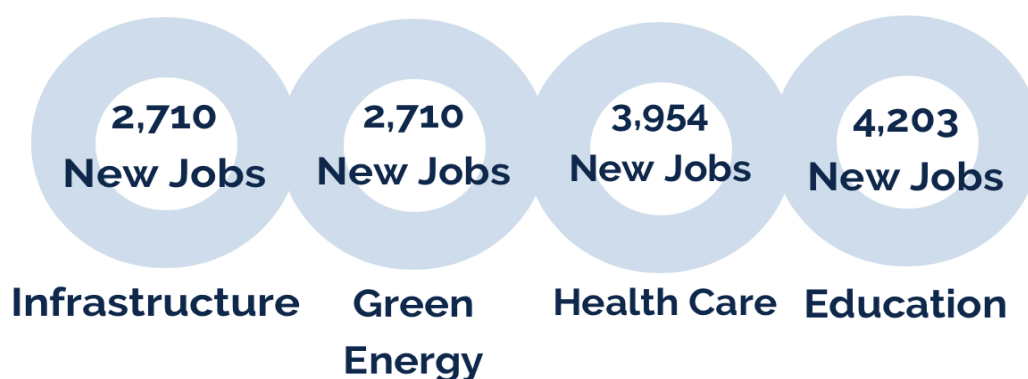
Table 2: Total Pentagon Contracts and Percentage of Business from Government Contracts (in billions of dollars)⁷



⁷ Federal Procurement Data Center, Top 100 Contractors Report FY 2020; company 10K reports. Total defense revenue includes foreign arms sales, as well as “revenue derived from defense, intelligence, homeland security, and other national security related contracts,” figures for 2019, based on Defense News, “Top 100 for 2020,” <https://people.defensenews.com/top-100/>; part of the disparity in the Raytheon Technologies figure for percentage of government revenues versus defense revenue is accounted for by the merger of Raytheon and United Technologies, which was concluded in 2020 and increased the proportion of non-military business in the merged entity versus the figures for Raytheon on its own for 2019.

While modest relative to the size of the Pentagon budget as a whole, executive compensation at the top contractors would go a long way if invested in other activities. Table 3 shows how many jobs could be created in key sectors if the \$276.5 million in compensation for top executives of the five largest Pentagon contractors were invested in green energy, infrastructure, health care, or education.

Table 3: Potential Jobs Created By Investing \$276.5 Million from Defense Executive Pay In Other Sectors⁸



The compensation of arms industry CEOs also marks a sharp contrast with the pay scale for military personnel, who receive anywhere from one five-hundredth to one one-hundredth what a top industry CEO earns. Average annual CEO compensation for the top five contractors is over \$21 million per year, compared to roughly \$39,000 in pay and basic benefits for a first-year military enlistee, a ratio of over 500 to one.⁹ A general of the highest rank earns well over \$200,000 per year, still only about one one-hundredth of average CEO pay at the top five contractors.¹⁰

⁸ Calculated based on jobs per million figures contained in Heidi Peltier, "Job Opportunity Costs of War," Costs of War Project, Brown University, May 24, 2017, <https://watson.brown.edu/costsofwar/files/cow/imce/papers/2017/Job%20Opportunity%20Cost%20of%20War%20-%20HGP%20-%20FINAL.pdf>

⁹ Figures on military pay are from U.S. Department of Defense, "Monthly Basic Pay Table Effective January 1, 2020," <https://militarypay.defense.gov/Pay/Basic-Pay/Active-Duty-Pay/> The figure for a beginning enlistee includes average for food and housing allowances as well as basic pay. Data on allowances is at <https://militarypay.defense.gov/Pay/Allowances/>

¹⁰ Ibid. The rough average figure with housing and food allowances is \$223,000