



# Lockheed: The High Cost of Dying

**M**any authorities blame the dinosaurs' extinction on the fact that these giant beasts outgrew their food supply. Like all true reptiles, they continued to grow as long as they lived. The more they ate, the bigger they grew. The bigger they grew, the more they *had* to eat. Some grew so large and heavy that their legs would not support their huge bodies unless the monsters were partially bouyed up by water. Handicapped by immobility, a natural torpor and pea-sized brains, the brutes had neither the strength nor the motivation to waddle elsewhere when their puddles dried up. In the inexorable way of nature, they became mercifully extinct, leaving the field to smaller, more adaptive and energetic warm-blooded competitors.

Not so with the aerospace dinosaurs the federal government supports with our tax dollars. Living in a cost-plus world where the laws of natural selection are suspended, all they need do is bellow when their food becomes scarce and taxpayers scurry around getting up more money for them,

even if it means making personal sacrifices and burdening their grandchildren with crushing debt. These giant corporations are thus relieved of any real responsibility for controlling their vast appetites, for producing quality goods which people want to buy, or otherwise competing for the favor of consumers. There is little question about what would happen to the aerospace giants if they were forced into a real world of true economic competition.

Last fall Senator Proxmire got some information from Pentagon sources which illustrated just how grossly fat were some of the Pentagon's pet dinosaurs. Based on these figures, an ordinary \$400 color television set could cost \$8000 if built at efficiency levels displayed by one of the Pentagon's favorite electronic contractors. In my own experience, cost levels of 2 to 10 times what would be tolerable in the competitive consumer markets are commonplace among aerospace giants.

This, of course, explains one of the reasons the Pentagon is the favorite zookeeper for our dinosaur companies. Argu-

by A. Ernest Fitzgerald

Illustration by Sandy Huffaker

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ments of "military secrecy" and "national security" may be invoked to prevent detailed disclosure of the fiscal atrocities perpetrated in the name of "defense." Admittedly, there is usually a skeleton of military capability beneath the layers of bureaucratic blubber of the huge weapons programs. This makes these huge corporate boondoggles easy to sell to American taxpayers, most of whom empty their pockets as a conditioned reflex to any offer of military gadgetry to subdue the foreign threat of the moment.

#### [THE GOLDEN HANDSHAKE]

The largest, best known and least adaptive of these gargantuan feeders at the public trough is Lockheed Aircraft Corporation. During the mid-1960s, Lockheed began compiling an amazingly consistent record of flops in its Pentagon contracts. Making full use of a talent for deceptive bidding on contracts, along with making the right political friends, the giant gathered billions of dollars in Pentagon contracts. Most notable among these were contracts for the much publicized C5A transport plane, the Cheyenne helicopter, the Short Range Attack Missile (SRAM) rocket engines, and the 1052 class of destroyer escorts. All were disasters from the start, but the circumstances were concealed from the public to avoid embarrassment.

Secrecy was especially important in the C5A contract. This grotesque arrangement included a clause later dubbed "the golden handshake" by *Washington Post* writer Bernard Nossiter. In essence the golden handshake provided for increased profits on the second order of the big planes if Lockheed stood to lose on the first order. Once the cost overruns on the first order grew to sufficient size, it actually paid Lockheed to generate further overruns if it could be assured of getting the full second order. Excess profits on the second order would more than offset theoretical losses on the first order, creating a condition called a "reverse incentive" in the technical jargon of the dinosaur-feeding trade. All that was needed to pull off this swindle was to keep the situation covered up until the second order could be placed by the Pentagon.

As a Pentagon Air Force deputy at the time, I was guilty of telling the truth about the C5A situation. In November of 1968, just a few months before the full second order of C5As would have been safely tucked away, I committed truth in testimony before Senator Proxmire's congressional committee that told about the concealed C5A overruns. I was later fired for this crime, thus proving once again Admiral Hyman Rickover's first rule of bureaucratic behavior: "If you must sin, sin against God, not the bureaucracy. God may forgive you, but the bureaucracy never will."

After my firing was announced, the combination of bad publicity for the Pentagon/Lockheed cabal and continuing runaway cost increases prompted a cutback in the planned number of airplanes in the second C5A order. This, in turn, reduced the value of the golden handshake to the point that Lockheed could no longer be assured of unlimited support of its financial gluttony. Almost immediately Lockheed threatened to default on its contracts and go bankrupt if it did not get its way in renegotiating them. As Congressman William Moorhead said at the time, "Who the hell wants 50

tons of dead, stinking dinosaur on his front lawn?" Very few, apparently, especially among the generals and other politicians. For public consumption, the participants in the Great Plane Robbery arranged a carefully staged "fight" over contract terms. In this well-publicized "controversy," Pentagon officials made elaborate plans behind the scenes to take a dive in the mock battle with their favorite contractor.

Part of the Pentagon's plan (which was eventually carried out) for settling their "dispute" with Lockheed was leaked to Senator Proxmire's staff by understandably timid Air Force employees outraged by the brazenness of the C5A giveaway plan. Lockheed's old contract would be torn up; a new, or "restructured" one would be substituted to let Lockheed off the hook. Lockheed would agree to accept a loss amounting to a small fraction of losses assessable under a strict constructionist view of contract enforcement. The "loss" would then be loaned back to Lockheed at no interest for several years and with low interest and easy terms thereafter. Lockheed's contract would be changed to a cost reimbursement arrangement removing contractual ceilings on eventual costs. Financially, the net effect of the so-called "restructured" contract was the same as giving Lockheed a grant of more than a billion dollars. Technically, such a grant is known in Pentagonese as an "amendment without consideration." Legally, the phrase "without consideration" means that you give money without assurance of getting anything in return.

#### [LOCKHEED RAIDS THE TREASURY]

Isn't all this just plain old-fashioned stealing? Not according to the General Accounting Office (GAO), the Congress' neutered, one-eyed watchdog agency. The transformation and decline of the GAO has been a great tragedy for the American public, but that is another story. The bailout of Lockheed, according to the GAO, is legal because of Public Law 85-804, known as the bailout law. Questioned on the applicability of PL 85-804 and its implementing Executive Order 10789 to the Lockheed situation, the GAO's legal experts interpreted the Executive's authority as follows:

1. The Department of Defense or any of ten other executive departments may designate *any* company "essential to the national defense." It is important to note that the *company* receives the "essential" designation, not the company's products or the instant contract.
2. Firms designated "essential" may then be given contracts, modifications to contracts and funds with or without consideration. This can be done, according to the GAO, without regard to other laws or restrictions except for a few minor ones such as prohibitions against cost-plus-percentage-of-cost contracts.
3. Determinations of essentiality and subsequent contracts or grants do not require justification, and are not subject to challenge.

Under the GAO interpretation of the bailout law, the Executive has the unilateral and unchallengeable power to bestow privileged status on any firm whatsoever. Now you



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## The Man Who Blew the Whistle

A. ERNEST FITZGERALD'S EXTRAORDINARY battle with the Pentagon began on November 13, 1968, when the soft-spoken weapons-cost analyst from Alabama revealed in congressional testimony what was common knowledge in the defense community: that the Lockheed C5A transport plane would cost around \$2 billion more than originally estimated.

The impact of Fitzgerald's statement was tremendous. The C5A was not only the biggest single defense contract ever granted, but it was also supposed to be the showpiece of the Pentagon's new efficiency regime. Secretary of Defense Clark Clifford announced to a staff meeting after the overrun disclosure that he was "very displeased with Mr. Fitzgerald." Air Force Secretary Harold Brown called Fitzgerald into his office and told him, "You're a damn poor congressional witness." On November 25, Fitzgerald received a "Notification of Personnel Action." Routinely given job tenure eight weeks previously, he was now told that the tenure decision had been a computer error—the first such error in Air Force history.

In 1969, when Melvin Laird replaced Clifford and Robert Seamans, Jr., replaced Harold Brown, things got even worse for the outspoken analyst. In May, Seamans publicly accused Fitzgerald of illegally releasing classified documents. That same month, the Air Force Office of Special Investigations began looking for irregularities in Fitzgerald's sex life and drinking

habits (they found nothing).

Tension inside the Pentagon continued to mount. The Air Force inadvertently revealed that it had lied about the C5A's troubles in order to protect Lockheed's position in the stock market. Fitzgerald himself made several more congressional appearances. An attempt by his superiors to muzzle him backfired when he revealed his orders to an outraged congressional committee. On June 11, he was summoned to a meeting with Laird and Deputy Defense Secretary David Packard, and was told he would be moved out of the Air Force. Then, in November 1969, Fitzgerald was fired.

Senator William Proxmire, to whom Fitzgerald had first revealed the C5A overruns, convened a hearing to inquire into the dismissal. The Air Force claimed that Fitzgerald's job had been eliminated as an economy move. Proxmire cited the law forbidding retaliations against congressional witnesses and declared, "We know a crime has been committed. The provisions of this statute have been clearly violated."

By December, the Fitzgerald affair had reached the White House. Sixty congressmen signed a letter to the President protesting Fitzgerald's dismissal. Clark Mollenhoff, then a Presidential advisor, reviewed the case and wrote Nixon, "the Fitzgerald case is untenable." He advised that the man be allowed to keep his job. But White House aide Alexander Butterfield, who was later to let slip the existence of Nixon's tape collection, disagreed. Butterfield wrote in a memo to Haldeeman, "Fitzgerald is no doubt a top-notch cost expert, but he must be given very low marks in loyalty, and after all, loyalty is the name of the game." He added, "We should let him bleed for a while, at least. Any rush to pick him up and put him back on the federal payroll would be tantamount to an admission of earlier wrongdoing on our part." Butterfield's advice carried the day, and in January 1970 Fitzgerald left the Pentagon. He began an appeals process that was to take years before it yielded even partial results.

The Civil Service Commission hearing finally began in May 1971, behind locked doors. After three days, Fitzgerald and his lawyer decided to go to court to compel the Commission to open up the hearing. Fitzgerald quickly got a ruling in his favor, but the government decided to appeal, which took another year. Meanwhile, Fitzgerald went to work as a consultant

for the Joint Economic Committee of Congress and for Congressman Jerome Waldie of California.

In late 1972, the Court of Appeals ruled in Fitzgerald's favor, overturning the Civil Service policy of holding closed review hearings. In January of 1973 an open hearing began, and a new controversy developed. When Air Force Secretary Seamans was asked about his contacts with the White House on the Fitzgerald matter, he invoked executive privilege.

The next day, President Nixon held a press conference at which former aide Clark Mollenhoff, now back with the *Des Moines Register*, pressed Nixon on Seaman's use of executive privilege. Did that mean that Seamans had talked to Nixon personally about Fitzgerald? After trying to evade the issue, Nixon blurted out: "I was totally aware that Mr. Fitzgerald would be fired or discharged or asked to resign. . . . This was not a case of someone down the line deciding he should go. It was a decision that was submitted to me. I made it and I stick by it."

Nixon's remark was disastrous. He had managed to destroy the contention that the Air Force had been stubbornly defending for the past three years, that Fitzgerald was not fired but simply phased out by budgetary considerations. The next day, Ronald Ziegler announced that Nixon "simply misspoke himself" in replying to Mollenhoff. "The President did not have put before him the decision regarding Mr. Fitzgerald." But documents produced by Mollenhoff indicate otherwise. And two other witnesses at Fitzgerald's Civil Service hearings subsequently invoked executive privilege.

In September of last year, in an ambiguous and reluctant action, the Civil Service Commission at last ruled that Fitzgerald must be reinstated at the Pentagon with back pay, but did so in a way that failed to fully vindicate him. The Commission's decision also tried to take the Nixon Administration off the hook for retaliating against a congressional witness. Now back at the Pentagon, Fitzgerald has been given a lesser job than before and still has not collected that back pay. His lawyers are pursuing both matters, and are also suing the government for legal fees and damages. Fitzgerald has changed a great deal since the days he took a pay cut to work for the Pentagon because he admired McNamara's "tough talk" about cost cutting. But such institutions as Lockheed and the Pentagon haven't changed a bit.

—T.Z.



probably didn't hear much about this aspect of the Lockheed bailout, even if you followed the Robbery closely in the papers. Most taxpaying serfs believe to this day that Lockheed was bailed out by a \$250 million loan. This was indeed a part of the bailout, but a minor part of the total package. The noisy and impassioned public debate of the \$250 million Lockheed loan was employed brilliantly by Lockheed and its agents in Government as a smokescreen to cover the really big-time raids on the public treasury.

Lockheed was pictured as a helpless and undeserving victim of harsh Pentagon contracting and the bankruptcy of Rolls-Royce, its partner in the L-1011 airbus project. In fact, Lockheed had lost nothing at all out of pocket as a result of its Pentagon contract fiascos. So far as could be determined by Senator Proxmire's staff, it was getting paid right along for its cost overruns—illegally, some of us thought. Moreover, the L-1011 airbus was known to be in deep trouble for many months before the Rolls-Royce bankruptcy. In fact, the Pentagon set up a staff of financial and contractual experts to work on Lockheed's L-1011 commercial project in the spring of 1970. On May 18, 1970, assistant secretaries of defense Robert Moot and Barry Shillito admitted to Senator Proxmire that Lockheed and its United States subcontractors stood to lose at least \$700 million on their commercial airbus program if they weren't bailed out. The Rolls-Royce bankruptcy didn't occur until February 1971, and the public brouhaha over the \$250 million loan broke with full force in May of 1971. By then potential L-1011 losses had grown to \$1.4 billion.

These facts, inconvenient for the Lockheed advocates, were generally ignored by the sympathetic business press. And, for one reason or another, the actual multibillion dollar bailouts of Lockheed's military programs were almost totally ignored by all the big-time news media. In a report dated July 2, 1971, the staff of the House Banking and Currency Committee estimated that Federal aid to Lockheed—contract overrun bailouts, loan guarantees and all—"could amount to approximately \$3 billion."

Lockheed's contract bailouts were proceeding apace while public, press and congressional attention was focused on the \$250 million loan fracas. Contracts for the C5A, the SRAM rocket motors and the Cheyenne helicopter were "restructured" and the shipbuilding programs changed to protect Lockheed from the full consequences of its own incompetence. David Packard, a multi-millionaire military contractor then serving as deputy secretary of defense, masterminded the deals. Even while he was opening the money sack at both ends for his old buddies at Lockheed, Packard gained a reputation as a strict steward of the public purse by his iron-jawed denunciations of Lockheed. Packard proved himself a master at the political principle of reversal: that is, loudly advocating a course polar to his own actions.

The House Banking and Currency Committee staff report could have given the public a glimpse of things to come, if its report had been widely disseminated. The Banking Committee staff, superb diggers of facts directed by Chairman Wright Patman, unearthed the secret agreement with the British government, by then Rolls-Royce's patron, to guarantee Lockheed's corporate welfare at least while the L-1011 airbus project lasted. The Banking Committee

staff was fully aware of the primary source of Lockheed's sustenance. "Since the success of the Lockheed loan depends on new military contracts," they wrote, "The Government will obviously be under enormous pressure, should the need arise, to provide Lockheed with contracts under highly preferential treatment . . ." They went on to comment further on the probable necessity to pump more military contract money into the sagging Lockheed carcass:

*It means that whether the Government is forced to pay the \$250 million, plus interest, will depend on the Government. Once any Administration is in the position where the failure to grant Lockheed some additional billions of dollars of defense contracts will force the Government to pay out the \$250 million guaranteed, the pressures to grant Lockheed preferential treatment in defense contracts will obviously be enormous. In the past, the Defense Department has often allocated contracts for other than reasons of pure economic efficiency.*

When this prediction was made in 1971, Lockheed was supreme among cost overrunners. It had a near-perfect record in exceeding original contract costs. It was also the largest "defense" contractor. Despite, or perhaps because of, its dismal performance, Lockheed was still number one in 1973 (the last year for which complete figures are available). In 1971 Lockheed projected 1973 sales to the Pentagon of \$1.35 billion. Both Packard and Treasury Secretary John Connally thought this was too high, estimating that Lockheed's Pentagon sales would be 30 percent lower, or \$946 million, in 1973. Based on the first nine months of 1973, Lockheed reports indicate that their Pentagon sales will be more than \$1.6 billion for the full year. That's about 18 percent above Lockheed's own "optimistic" forecast and a whopping 69 percent higher than Administration estimates.

How about profits? Lockheed had forecast it would lose \$41.5 million on the L-1011 airbus program in 1972. It reported actual losses of \$80.5 million on the L-1011 for that year, but operating profits on other business, mostly with the government, were a handsome \$155.7 million, \$30.5 million more than Lockheed's own fond hopes. Congressman William Moorhead neatly summarized the Great Plane Robbery in a 1971 press release: "... one has to admire Daniel Haughton, Chairman of the Board of Lockheed, who, by sheer guts and bailing wire, has kept his group of incompetents afloat by intimidating the Federal Government with threats of corporate suicide and then walking out with the taxpayers' money."

#### [CORPORATIONS ON WELFARE]

Lockheed didn't invent boondoggling, of course, nor was it the first to use economic threats to avoid paying for its own boneheaded blunders. Its leadership in obtaining corporate welfare was demonstrated by showing that such capers could be pulled off on a really grand scale. Even so, if the terrible mistakes in handling the Lockheed fiasco had been limited to just one company, the long-term damage might have been contained. But it wasn't.

*(Continued on page 57)*

# Chile: Can the Junta Rule?



*Santiago, September 1973—The four members of the Junta. At center, saluting, from left to right: Air Force General Gustavo Leigh, Army Commander Augusto Pinochet, Admiral Jose Torribio, and Infantry Commander Cesar Mendoza.*

**T**he morning Chilean army tanks began their assault on the Presidential Palace in downtown Santiago, I watched while a crowd of curious Chileans gathered. They lounged around as if awaiting the start of some scheduled TV spectacular, cracking tense jokes, engaging in political arguments, trading stories of earlier experiences in Chile's new spectator sport—political violence. Suddenly, bullets were everywhere and the spectators became participants, racing hysterically for shelter, many failing in the attempt.

The coup was no surprise to the Chilean man-in-the-street, but few could have predicted that the takeover would be the most brutal in the history of the continent. Nor did anyone expect that Chilean political institutions, which had been developed over decades of middle-class rule, would be destroyed within a period of months. The middle classes—shopkeepers, truckers, small industrialists, medium-sized landowners—had hoped for a return to stability and prosperity after the socialist Allende regime was ousted. There had even been talk that a moderate Christian

Democratic government under former President Frei would return to power. But, instead, Chile has experienced a violent and total break with its past.

It seems to be the Junta's intention to transform Chile permanently, erasing, as Chilean Air Force General Leigh insisted, "the last 50 years of Chilean history." Politically, the Junta, led by Army Commander Augusto Pinochet, with the commanders of the other armed services and the police, has been consolidating its power. It has publicly blamed the Christian Democrats for contributing to the "destruction of Chile," and has imposed censorship and terror as regular features of Chilean life. All organized political activity, with the exception of that within the Left underground, has come to a halt.

Even those who contemplated a trade-off of political liberty for economic stability have had a rude awakening. The new regime has brought economic disaster to many who thought they had much to gain from the coup. In the months since the military takeover, consumer prices have risen between 200 and 1000 percent. A kilo of bread which