

Operation Fiscal **Bluff**

How the “Fix the Debt” Budget Lobby is Protecting Billions in
Defense Contracts for its Corporate Backers



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The Public Accountability Initiative (PAI) is a non-profit, non-partisan research and educational organization focused on corporate and government accountability. In addition to publishing research on critical public accountability issues, PAI maintains LittleSis.org, an involuntary facebook of powerful people. Read more about PAI at public-accountability.org.

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Key Findings

Fix the Debt – a powerful, corporate-backed lobbying group advocating debt reduction with a \$60 million budget – has failed to embrace defense spending cuts as a viable deficit reduction option, despite the fact that defense spending makes up over half of discretionary spending.

The group’s “core principles” focus on Social Security, Medicare, and Medicaid reforms and “pro-growth” tax reform, and fail to even mention defense spending. Elsewhere on its website, Fix the Debt identifies the sequester’s automatic defense spending decrease not as a potential contributor to deficit reduction, but rather as cause for concern.

Fix the Debt’s eagerness to point the finger at social safety net spending while virtually ignoring defense spending makes more sense in light of its corporate backing. A review of the group’s corporate ties shows that many Fix the Debt leaders have lucrative connections to companies with billions of dollars in defense contracts:

- **38 Fix the Debt leaders have ties to 43 companies with defense contracts totaling \$43.4 billion in 2012.** Fix the Debt leaders profiting from defense spending include the group’s co-chairs, steering committee members, and CEO council members; they have ties to these companies as board members, executives and CEOs, and lobbyists.
- Boeing (with \$25.1 billion in defense contracts) and Northrop Grumman (with \$8.5 billion) lead the pack. Boeing CEO W. James McNerney, Jr. is on Fix the Debt’s CEO Council, and Northrop Grumman board member Vic Fazio is on Fix the Debt’s steering committee.
- Four other Fix the Debt-linked companies have more than \$1 billion in 2012 defense contracts: GE (\$2.1 billion), Textron (\$2 billion), Honeywell (\$1.5 billion), and World Fuel Services (\$1.2 billion).
- The 38 Fix the Debt leaders with ties to defense contractors drew at least \$401 million in compensation from the 43 companies in 2011 – an average of \$10.6 million each.
- Honeywell and GE each have ties to three Fix the Debt leaders, more than any other defense contractor.
- Outside of Fix the Debt’s CEO Council, four individuals in Fix the Debt’s core leadership group have strong ties to defense contractors: co-chair Judd Gregg (director, Honeywell), and steering committee members Sam Nunn (director, GE, Hess, Coca-Cola), Vic Fazio (director, Northrop Grumman), and Jim McCrery (lobbyist, GE and Chevron). None of these ties are disclosed on the campaign’s website; all four are characterized as former members of Congress.

Background: Conflicts of Interest at Fix the Debt

The Campaign to Fix the Debt is a powerful new lobbying group with a budget of \$60 million to advocate debt reduction.¹ Though ostensibly concerned with fiscal reform that reduces the federal budget deficit, Fix the Debt has embraced a curiously limited set of deficit reduction

measures as “core principles”: Medicare, Medicaid, and Social Security reform and “pro-growth” tax reform.²

At the same time, many Fix the Debt leaders have ties to corporations that are actively lobbying in opposition to budget deficit reduction measures such as defense spending cuts, tax reforms, and health care reforms. The group is led by a steering committee identified on its website as current and former public officials, but mainly comprised of individuals with strong ties to corporate interests. For instance, co-chair Judd Gregg is identified as a former Senator on Fix the Debt’s website, but he is currently an international adviser to Goldman Sachs and a board member of IntercontinentalExchange and Honeywell.

The group has also assembled a “CEO Fiscal Leadership Council” that includes more than 80 CEOs of America’s most powerful companies, including Boeing, Goldman Sachs, General Electric, and JPMorgan Chase.³ Many of these companies have a major stake in ensuring that certain deficit reduction measures – such as corporate tax rate increases⁴ and defense spending cuts – do not happen.

These connections constitute troubling conflicts of interest for a group that is ostensibly concerned with deficit reduction; are Fix the Debt leaders really dedicated to deficit reduction, or are they merely interested in tax and spending policies that pad their profits?

Defense Spending as a Deficit Reduction Measure

Defense spending cuts would seem to be an attractive deficit reduction measure: defense spending makes up a significant percentage of the federal budget, and US defense spending far outpaces the rest of the world.

Defense spending accounts for more than half of discretionary spending. According to the CBO, in fiscal year 2011 defense spending totaled \$699 billion, or 52% of total discretionary spending of \$1.35 trillion.⁵ By comparison, Medicare spending was \$480 billion, Medicaid spending was \$275 billion, and Social Security spending was \$725 billion.

The US also spends far more on defense than other countries. This has been acknowledged by Fix the Debt allies: a chart from the Peter G. Peterson Foundation, a group founded by Fix the Debt funder Peter G. Peterson (also the father of steering committee member Michael Peterson), shows that US defense spending was by far the highest in the world, outpacing the next 13 biggest defense spenders combined.⁶

There are signs of a growing consensus in Washington that defense spending should be cut. A group of defense-focused think tanks recently released proposals suggesting average Pentagon cuts of \$510 billion over the next ten years.⁷

Fix the Debt on Defense Spending

Strangely, Fix the Debt’s literature makes few mentions of defense spending. Unlike Medicare, Medicaid, and Social Security, defense spending is not mentioned on Fix the Debt’s “Core

Principles” page, even though it is far greater than Medicare or Medicaid spending, and only slightly less than Social Security spending.

Elsewhere, Fix the Debt criticizes the defense spending cuts included in the sequester. A blog post titled “What’s the Sequester?” notes that the sequester’s automatic defense spending decrease “causes concern among officials and businesses within the defense sector.”⁸ As discussed below, many of these “officials and businesses” are affiliated with Fix the Debt.

Fix the Debt’s list of “CEO Talking Points” – used for lobbying members of Congress – point to defense spending cuts not as a deficit reduction measure but as one reason “we must also avoid the ‘Fiscal Cliff’ scheduled at the beginning of 2013.”⁹

Defense spending cuts are acknowledged as a component of deficit reduction in one infographic on the site.¹⁰

Fix the Debt’s Ties to Defense Contractors

Fix the Debt’s failure to prioritize defense spending cuts is not surprising in light of its leaders’ lucrative ties to companies with significant defense contracts. Numerous Fix the Debt leaders are profiting from inflated levels of defense spending as CEOs, board members, executives, and lobbyists at these defense contractors.

A review of Fix the Debt’s leadership – including steering committee members, co-founders, co-chairs, and CEO fiscal leadership council members – shows that **38 Fix the Debt leaders have ties to 43 companies with defense contracts worth \$43.4 billion in fiscal year 2012.**¹¹ These individuals have ties to defense contractors such as Boeing, Northrop Grumman, and Honeywell as CEOs, executives, board members, and lobbyists.

These connections are documented in the below table. Please note that defense contract data was compiled from data at USASpending.gov. Due to a combination of factors, defense spending data can fluctuate significantly, so the below numbers should be considered approximate.

The following are summary highlights from the data set:

- 38 leaders on Fix the Debt’s steering committee and CEO Council have ties, as board members, executives, and lobbyists, to 43 companies with defense contracts worth \$43.4 billion in fiscal year 2012.
- W. James McNerney, Jr., a Fix the Debt CEO Council member, is CEO of Boeing, which has \$25.1 billion in defense contracts – far more than any other Fix the Debt-linked company.
- Vic Fazio, a Fix the Debt steering committee member, is on the board of Northrop Grumman, which had \$8.5 billion in contracts with the Department of Defense in 2012. Though currently a corporate lobbyist at Akin Gump, he is identified as a former member of Congress on Fix the Debt’s website.

- Sam Nunn, a Fix the Debt steering committee member, is on the boards of three companies with defense contracts: GE, Coca-Cola, and Hess. He is identified as a former Senator on Fix the Debt’s website.

<u>Top Six Defense Contractors with Fix the Debt Ties</u>		
<u>Defense Contractor</u>	<u>Fix the Debt Link</u>	<u>2012 Defense Contracts</u>
Boeing	W. James McNerney, Jr. (CEO)	\$25.1 billion
Northrop Grumman	Vic Fazio (board member)	\$8.5 billion
GE	Jeffrey Immelt (CEO), Sam Nunn (board member), Jim McCrery (lobbyist)	\$2.1 billion
Textron	Scott Donnelly (CEO)	\$2.0 billion
Honeywell	David Cote (CEO), Judd Gregg (board member), D. Scott Davis (board member)	\$1.5 billion
World Fuel Services	Paul Stebbins (Executive Chairman)	\$1.2 billion

Note: Four of these individuals are Fix the Debt steering committee members: Sam Nunn, Vic Fazio, Judd Gregg, and Jim McCrery. The rest are CEO council members. David Cote is both.

- Fix the Debt co-chair Judd Gregg (identified as a former Senator on Fix the Debt’s website) sits on the board of Honeywell, which had \$1.5 billion in defense contracts in 2012.
- Honeywell has ties to more Fix the Debt leaders than any other defense contractor: Gregg, Fix the Debt steering committee David Cote (Honeywell’s CEO), and CEO council member D. Scott Davis (a board member). In the risk disclosure section of Honeywell’s 2012 annual report, the company stated:

A change in the level of U.S. Government defense and space funding or the mix of programs to which such funding is allocated could adversely impact Aerospace’s defense and space sales and results of operations.¹²

- Two Fix the Debt leaders lobby for defense contractors. Steering committee member Jim McCrery, characterized as a former member of Congress on Fix the Debt’s website, is a lobbyist for GE, Chevron, and several other companies with defense contracts.

Vic Fazio has lobbied in 2012 for some companies with defense contracts, such as Dow Chemical, though the companies’ contract amounts are relatively minimal.¹³ Fazio also lobbied on behalf of Corrections Corporation of America (CCA), a private prison company, which has insignificant defense contracts but \$380 million in DOJ and DHS contracts in 2012 (this amount is not included in the below table).

Table: Fix the Debt Ties to Defense Contractors

<u>Fix the Debt Leader</u> (position at Fix the Debt)	<u>Defense Contractor Connection</u> (position, 2011 compensation)	<u>2012 Defense Contract</u> <u>Amounts</u>
W. James McNerney Jr. (CEO Fiscal Leadership Council)	Boeing (Chairman, President, & CEO, \$23 million)	\$25,085,806,290
	IBM (Board member, \$278,357)	\$356,768,686
Vic Fazio (Fix the Debt Steering Committee)	Northrop Grumman (Board member, \$304,347)	\$8,500,882,903
	Dow Chemical (Lobbyist)	\$2,354,720
	CCA (Lobbyist)	
Jeffrey Immelt (CEO Fiscal Leadership Council)	General Electric (Chairman & CEO, \$21.6 million)	\$2,054,043,121
Sam Nunn (Fix the Debt Steering Committee)	General Electric (Board member, \$312,793)	<i>see above</i>
	Hess Corporation (Board member)	\$82,637,189
	Coca-Cola (Board member, \$212,977)	\$44,111,438
Scott Donnelly (CEO Fiscal Leadership Council)	Textron (Chairman, President, & CEO, \$11.5 million)	\$2,004,015,014
David Cote (Fix the Debt Steering Committee & CEO Fiscal Leadership Council)	Honeywell (Chairman & CEO, \$37.8 million)	\$1,482,577,919
Judd Gregg (Fix the Debt Co-Chair)	Honeywell (Board member, \$401,514)	<i>see above</i>
Paul Stebbins (CEO Fiscal Leadership Council)	World Fuel Services (Executive Chairman, \$5 million)	\$1,151,706,246 ¹⁴
Jim McCrery (Fix the Debt Steering Committee)	Chevron (Lobbyist)	\$497,042,857
	General Electric (Lobbyist)	<i>see above</i>
D. Scott Davis (CEO Fiscal Leadership Council)	United Parcel Service (Chairman & CEO, \$13 million)	\$449,115,477
	Honeywell (Board member, \$269,067)	<i>see above</i>

Douglas Oberhelman (CEO Fiscal Leadership Council)	Caterpillar (Chairman & CEO, \$16.9 million)	\$448,932,047
Lowell McAdam (CEO Fiscal Leadership Council)	Verizon (Chairman & CEO, \$23.1 million)	\$254,431,719
Alexander Cutler (CEO Fiscal Leadership Council)	Eaton Corp (Chairman & CEO \$13.6 million)	\$102,669,991
Steve Ballmer (CEO Fiscal Leadership Council)	Microsoft (CEO, \$1.4 million)	\$59,490,096
Samuel R. Allen (CEO Fiscal Leadership Council)	Deere (Chairman & CEO, \$18.8 million)	\$58,407,421
Greg Brown (CEO Fiscal Leadership Council)	Motorola (Chairman & CEO, \$29.3 million)	\$55,958,572
William McCracken (CEO Fiscal Leadership Council)	CA Technologies (CEO, \$8 million)	\$40,937,279
Richard Anderson (CEO Fiscal Leadership Council)	Delta Air Lines (CEO, \$8.9 million)	\$26,040,507
	Medtronic (Board member, \$189,461)	\$23,065,701
Pete Selleck (CEO Fiscal Leadership Council)	Michelin North America (Chairman & President)	\$20,267,589
Kenneth Frazier (CEO Fiscal Leadership Council)	Merck (Chairman, President, & CEO, \$13.3 million)	\$6,476,381
	ExxonMobil (Board member, \$285,958)	\$505,480,097
Glenn Britt (CEO Fiscal Leadership Council)	Time Warner (Chairman & CEO, \$16.4 million)	\$4,573,899
	Xerox Corporation (Board member, \$217,500)	\$72,245,674
Andrew Liveris (CEO Fiscal Leadership Council)	Dow Chemical (Chairman, President, & CEO, \$19.3 million)	\$2,354,720
	IBM (Board member, \$256,456)	<i>see above</i>
Arne M. Sorenson (CEO Fiscal Leadership Council)	Mariott International (President & CEO, \$6.3 million)	\$1,592,256
Richard Smith (CEO Fiscal Leadership Council)	Equifax (Chairman & CEO, \$11 million)	\$453,719
John Chambers (CEO Fiscal Leadership Council)	Cisco Systems (Chairman, President, & CEO, \$12.9 million)	\$407,312

David Barger (CEO Fiscal Leadership Council)	JetBlue Airways (President & CEO, \$1.6 million)	\$393,225
Gregg M. Sherrill (CEO Fiscal Leadership Council)	Tenneco (Chairman & CEO, \$5.8 million)	\$300,000
	Snap-On (Board member, \$190,185)	\$27,234,387
Paul Jacobs (CEO Fiscal Leadership Council)	QualComm (Chairman & CEO, \$21.7 million)	\$284,284
Michael White (CEO Fiscal Leadership Council)	DIRECTV (President & CEO, \$5.9 million)	\$206,675
Carl Camden (CEO Fiscal Leadership Council)	Kelly Services (President & CEO, \$3.8 million)	\$175,673
Rolla Huff (CEO Fiscal Leadership Council)	EarthLink (Chairman & CEO, \$4 million)	\$131,310
Mel Karmazin (CEO Fiscal Leadership Council)	Sirius XM (CEO, \$10.7 million)	\$158,793
Russell Fradin (CEO Fiscal Leadership Council)	SunGard (President & CEO)	\$98,889
Gary Garfield (CEO Fiscal Leadership Council)	Bridgestone Americas (President & CEO)	\$62,317
Carl Russo (CEO Fiscal Leadership Council)	Calix (President & CEO, \$1.1 million)	\$28,244
Doug Bergeron (CEO Fiscal Leadership Council)	Verifone (CEO, \$14.2 million)	\$16,065
Andrew Tisch (CEO Fiscal Leadership Council)	Loews Corporation (Co-Chairman, \$7.8 million)	\$14,802
Wendell Weeks (CEO Fiscal Leadership Council)	Corning (Chairman & CEO, \$10.3 million)	\$10,315
	Merck (Board member, \$290,000)	see above
Total Compensation	\$401,208,615	
Total Amount of 2012 Defense Contracts		\$43,421,607,104

Note: Data for defense contracts is drawn from FY 2012 award data at USASpending.gov, where figures can fluctuate based on new data. DOD data is also delayed by 90 days, so the full 2012 fiscal year is not yet available. Compensation data is drawn from proxy statements for the companies referenced.

Conclusion

With a \$60 million budget that is heavily focused on public relations, Fix the Debt has tremendous power to shape the “fiscal cliff” conversation in Washington and beyond. Fix the Debt’s priorities are bound to be amplified in the media and gain traction in policy talks. So far, the group has chosen to prioritize social safety net cuts over defense spending cuts.

Fix the Debt’s extensive ties to defense contractors suggest that this focus on social safety net spending is an all-too-convenient policy stance for the group. As this report documents, its backers have billions of dollars in financial incentives to keep defense spending cuts off the table.

If Fix the Debt’s leaders were truly serious about reducing the federal budget deficit, defense spending cuts would be a priority for the group. Instead, it is aiming its firepower at the social safety net, focusing blame on Medicare, Medicaid, and Social Security recipients – and distracting attention from the way the defense budget is funneling public dollars into the pocketbooks of its wealthy corporate backers.

Will Fix the Debt get away with this “fiscal bluff”?

¹ “CEO Talking Points”, Fix the Debt (October 2, 2012). Accessed at: www.fixthedebt.org/uploads/files/CEO-Talking-Points-10.2.12.doc

² “Core Principles of the Campaign to Fix the Debt”, Fix the Debt. Accessed at: <http://www.fixthedebt.org/core-principles>

³ “The Campaign to Fix the Debt CEO Fiscal Leadership Council”, Fix the Debt. Accessed at: <http://www.fixthedebt.org/uploads/files/CEO%20Fiscal%20Leadership%20Council%20Membership%2012-7-12%283%29.pdf>

⁴ Sarah Anderson and Scott Klinger, “The CEO Campaign to ‘Fix’ the Debt: A Trojan Horse for Massive Corporate Tax Breaks”, Institute for Policy Studies (November 13, 2012), 1. Accessed at <http://www.ips-dc.org/reports/ceo-campaign-to-fix-the-debt>

⁵ “An Update to the Budget and Economic Outlook,” Congressional Budget Office, 5. Accessed at: http://cbo.gov/sites/default/files/cbofiles/attachments/08-22-2012-Update_to_Outlook.pdf

⁶ “The U.S. spent more on defense in 2011 than did the countries with the next 13 highest defense budgets combined”, Peter G. Peterson Foundation (April 12, 2012). Accessed at: http://www.pgpf.org/Chart-Archive/0053_defense-comparison.aspx

⁷ “Disparate defense think tanks reach common ground on defense cuts,” The Hill (December 17, 2012). Accessed at: <http://thehill.com/blogs/defcon-hill/policy-and-strategy/273303-disparate-defense-think-tanks-reach-common-ground-on-defense-cuts->

⁸ “What’s the Sequester”, Fix the Debt.

⁹ “CEO Talking Points”, Fix the Debt (October 2, 2012). Accessed at: www.fixthedebt.org/uploads/files/CEO-Talking-Points-10.2.12.doc

¹⁰ “Why Do We Need to Fix the Debt?”, Fix the Debt. Accessed at: <http://www.fixthedebt.org/uploads/files/Fix%20The%20Debt%20Infographic.pdf>

¹¹ Defense contract data is drawn from USASpending.gov for fiscal year 2012. Numbers fluctuate constantly on USASpending.gov, so current numbers may be different for the numbers in this report. DOD data is also delayed by 90 days, so award data from 2012 is still being updated (and will continue to be updated in the future). The contract amounts included in this report should be considered approximate figures for this reason.

¹² Form 10-K, Honeywell International Inc. (2011). Accessed at: http://www.sec.gov/Archives/edgar/data/773840/000093041312000976/c68029_10k.htm

¹³ Vic Fazio lobbyist profile, OpenSecrets.org, accessed at: <http://www.opensecrets.org/lobby/lobbyist.php?id=Y0000041214L&year=2012>

¹⁴ This total is listed on USASpending.gov for "World Fuel Cayman Holding Company I," a World Fuel Services subsidiary. It is unclear whether this total includes \$776,124,429 in defense contracts listed on USASpending.gov for "World Fuel Services Corp." as hierarchical relationships between companies on the site are coded by a system proprietary to Dun & Bradstreet and unavailable to the public.