State-Corporate Crime in the Defense Industry: A Case Study of General Dynamics’ Procurement of the Trident Submarine

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STATE-CORPORATE CRIME IN THE DEFENSE INDUSTRY: A CASE STUDY OF GENERAL DYNAMICS' PROCUREMENT OF THE TRIDENT SUBMARINE

by

James E. Robinson

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James E. Robinson
STATE-CORPORATE CRIME IN THE DEFENSE INDUSTRY: A CASE STUDY OF GENERAL DYNAMICS' PROCUREMENT OF THE TRIDENT SUBMARINE

James E. Robinson, M.A.
Western Michigan University, 2000

This study outlines the evolution of White-Collar criminological studies of the 1940’s, to the more specific study of State-Corporate in the Defense Industry. Furthermore, it outlines the procurement process used by the Department of Defense and puts these processes within a theoretical framework to better explain how State-Corporate crimes occur.

This study focuses on the process by which billions of dollars are wasted each year within the military procurement process, and specifically outlines the fraudulent procurement practices utilized by the General Dynamics Corporation when it built the Trident Submarine during the 1970’s.

This study also explains the concept of the Military Industrial Complex and the powerful actors within this entity that perpetuate State-Corporate crime in the Defense Industry.
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CHAPTER I

INTRODUCTION

Over the past two decades a number of criminologists have conducted research on the topic of organizational crime. Some of these studies focus on corporate crime (Clinard and Yeager, 1978; Kramer, 1984; and Michalowski and Kramer, 1987), some on government crime (Roebuck and Weeber, 1978; Glaser and Possony, 1979; and Kauzlarich, Kramer, and Smith, 1992), and still others on state-corporate crime: crime that is the result of the interaction between governments and corporations (Kramer and Michalowski, 1990; Kramer, 1992; and Kauzlarich and Kramer, 1992). One major industry that has been neglected, however, is the defense industry. This thesis will begin to explore state-corporate crime in the defense industry in the United States. Specifically, I will present a case study of the illegal acts committed by the General Dynamics Corporation during the procurement process of the Trident nuclear submarine.

While scholarly neglect towards this topic alone justifies the study, there are other social and political reasons why this research is important and timely. For instance, the description and explanation of criminal
fraud and abuse in the defense procurement process may help to foster reforms in that process and eliminate wasteful military spending.

Furthermore, throughout most of the twentieth century the world saw only a handful of powerful nations. Subsequently, the Soviet Union and the United States emerged as world leaders while advancing their ideologies (Communism and Democracy) throughout this period. During the cold-war era (after the conclusion of World War II and prior to the fall of the Berlin Wall which had separated Communist, East Germany and Democratic, West Germany) these two countries wielded economic, political, and military power over the rest of the world – clearly the forerunners within their respective ideologies. However, in the post cold-war era (since the demise of Communism and the fall of the Berlin wall) the United States military has slowly redefined the role of American fighting men and women stationed throughout the world. Today's U.S. fighting forces no longer train to fight and win a major war with the Soviet Union, their former nemesis. Rather, the United States is training to respond to several lessor engagements simultaneously. Throughout this period, however, the United States fighting forces have dwindled in size to pre-Viet Nam era (1960's) numbers, all the while significantly increasing the operations tempo while responding to crises throughout the world. Likewise, throughout this same period the United States armed
forces have seen a dwindling budget due to cut-backs in the President's budget for the military. These budget cuts have affected research and development for newer equipment, the ability of military personnel to receive training with both high-tech and older equipment, as well as significantly hampering the ability to procure spare parts for aging equipment. With the decreasing number of military personnel, the increased operations tempo, and less of a budget to properly equip and train the United States fighting forces, it is imperative that the Department of Defense significantly reduce the amount of money which is wasted within their procurement processes.

There are four major research objectives that guide this thesis: (1) To provide an introduction to the nature and extent of state-corporate crime in the defense industry; (2) To describe the criminal acts committed by General Dynamics throughout, and after, the procurement of the Trident nuclear submarine; (3) To place the actions of General Dynamics within a theoretical framework that allows us to identify and analyze the historical, structural, and organizational forces that shaped these crimes; and (4) To outline policy changes that may reduce the incidence of these types of state-corporate crimes.
The concept of white-collar crime was first developed by Edwin Sutherland in 1939. He argued that people within the upper classes committed crimes, even though these crimes were not the focus of traditional criminological study.

Sutherland's ideas on white-collar crime eventually sparked much discussion and debate within the realm of criminological study. Unfortunately, it wasn't until the 1970's that criminologists refocused their attention towards "white-collar" crime. Clinard and Quinney (1973) were two such individuals credited with refining Sutherland's ideas in their work *Criminal Behavior Systems: A Typology*. They did this by outlining the importance of one's occupation in the commission of white-collar crime and suggesting white-collar crime is two-fold: occupational or corporate. According to Clinard and Quinney (1973), "Occupational Crime consists of offenses committed by individuals for themselves in the course of their occupations and the offenses of employees against their employers" (p. 188). Corporate crime is defined as, "the offenses committed by corporate officials for their corporation and the offenses of the corporation itself" (p. 188).
Clinard and Quinney identified an important concept to which many sociologist have dedicated much attention - the corporation. By recognizing the important role a corporation plays in white-collar crime they initiated sociological study at the organizational level of analysis. Schrager and Short continued Clinard and Quinney's refinement of Sutherland's ideas by succinctly outlining deficiencies in Sutherland's differential association concept. They contend (1978), "preoccupation with individuals can lead us to underestimate the pressures within society and organizational structures which impel those individuals to commit illegal acts" (p. 410). Furthermore,

These difficulties make necessary and possible the analysis of organizations as potentially criminal agents. Recognizing that structural forces influence the commission of these offenses does not negate the importance of interaction between individuals and these forces, nor does it deny that individuals are involved in the commission of illegal organizational acts. It serves to emphasize organizational as opposed to individual etiological factors, and calls for a macrosociological rather than an individual level of explanation (p. 410).

The organizational perspective, therefore, argues that the organizational structure influences actors within the organization in such a way that it places significant pressures upon these actors. These pressures ultimately lead to corporate wrongdoing.
Kramer and Michalowski (1990) further refined the study of white-collar crime with the concept of state-corporate crime. They define state-corporate crime as:

(I)legal or socially injurious actions that occur when one or more institutions of political governance pursue a goal in direct cooperation with one or more institutions of economic production and distribution (p.3).

As Friedrichs (1995) points out, "(t)he premise for the concept of state-corporate crime is that modern states and corporations are profoundly interdependent" (p. 154). The facilitation of NASA and the Morton Thiokol corporation with regards to the space shuttle Challenger disaster in 1986 is just one example which clearly demonstrates the intricacies of state-corporate crime. Furthermore, without each of the actors in both of these instances, these crimes, and the deaths which resulted, would not have occurred.

Aulette and Michalowski (1993) further define state-corporate crime by classifying it as either state facilitated, or state initiated. State-facilitated crimes are those which the state, either by its actions or omissions, advances the progress of the crime which was initiated by another entity. State-initiated crimes, simply put, are those crimes which are started by the State.
State Corporate Crime in the Defense Industry

By adding a military component to a state-corporate crime, a more specific type of state-corporate crime emerges. This type of crime is called state-corporate crime in the defense industry.

State-corporate crime in the defense industry includes at least three powerful agencies: the State (Congress), the Department of Defense (military), and a Corporation (General Dynamics). The collaboration between these three entities is known as the "military-industrial complex." The interaction between the members of the military industrial complex is both complex and interdependent. Each of the members benefits from this collaboration, either through profits, power, weapons, funding, or future jobs. Through this association, the military industrial complex has both initiated and facilitated an atmosphere of organizational misconduct that permeates the entire industry.

Many types of crimes are committed in the defense industry. In addition to fraud, additional crimes occur such as bribery, bid rigging, "buying-in", illegal charging to government bills, racketeering, extortion, and conspiracy. However, two of these crimes (bid rigging and buying-in) are probably two crimes that require some explanation. Whereas most people may be familiar with crimes such as fraud, charging the
government illegally, or extortion, bid rigging and buying-in are types of crimes that are predominantly found when the government procures a service or other item from a business or corporation. The procurement process in the defense industry is an area where these two types of crimes flourish, therefore requiring some explanation.

Bid rigging is the practice of submitting a bid for a contract after having already secured “inside” knowledge of the bids that others were going to submit for consideration. Having this type of “inside” knowledge, the corporation is virtually guaranteed to win the contract. Another type of bid rigging is when representatives from separate corporations take turns submitting the lowest bid. This bid, although the lowest, still results in a substantial profit because it is well above what the bidder would have submitted had s/he not known what the others were going to bid. With this type of bid rigging each of the participants takes its turn at submitting the “low” bid, and subsequently reaping the financial benefits that accompany the bid.

Buying-in is the practice of submitting a bid known by the contractor to be much lower than what it would cost to actually produce the product. By doing this the contractor is assured of being awarded the contract. Later, during the process of building the product, the corporation announces it will cost more than expected and needs more
money to finish the contract. This not only assures the corporation is awarded the contract, but ensures a healthy profit too.

There is, however, more to buying-in than just getting the initial contract and going back to the Department of Defense for more money. If a corporation receives an initial contract for a newly-desired weapons system, the corporation is virtually guaranteed to receive the lucrative follow-on contracts that will surely follow. "Obviously the contractor, knowing that all he has to do is win the first competition, thereby capturing all the follow-on contracts, will not be encouraged to keep costs down." (Rasor, 1985, p. 128).

To compound this problem, the vast majority of government contracts are not even competitively bid. As Rasor (1985) notes, "According to the General Accounting Office (GAO), in 1981 only 6 percent of the Pentagon's procurement budget was competitively bid ... " (p. 128). Competitively bidding is the process of requiring many separate contractors to compete for contracts the government is offering. In the instance of the procurement of the Trident nuclear submarine, the Electric Boat Division of the General Dynamics Corporation was the only contractor allowed to bid on the contract.

Buying-in is probably the most difficult crime to prove as it relates to the defense industry. The items the Department of Defense purchases
are very high-tech, often very secretive, and are believed to be very expensive due to the precision needed for them to operate on battlefields in the roughest climates and terrains. Furthermore, these items are predominantly newly-designed weapons which are being built to meet the evolving needs of the Department of Defense. Therefore when a corporation tells the Department of Defense that it will cost a billion dollars to make a weapon, due to the technical complexity of the weapon system, it is difficult to determine if the cost to produce the weapon system is legitimate.

Examples of likely buying-in to government contracts are not hard to find. In 1977 the United States Army procured the Bradley Fighting Vehicle at a cost of $338,000. Although the Army assured Congress this price was firm, by 1982 the actual cost had exploded to $1.94 million each (Rasor, 1983, p. 14).

The Wall Street Journal’s Alexander Cockburn wrote an article in 1981 condemning the Air Force’s procurement of the AWACS aircraft. More than a decade after starting production the cost for 35 AWACS aircraft had cost the United States Air Force nine billion dollars. “Unofficial predictions are that the $9 billion figure will double by the time the program is completed” (Rasor, 1983, p. 126). Furthermore, “when Pentagon analyst A. Ernest Fitzgerald revealed to Congress in
1969 that the C-5a was over budget by $2 billion, it was then the biggest cost overrun ever recorded" (Rasor, 1983, p. 251).

Examples like these permeate the defense industry's procurement system, and are made possible by the involvement of the Military Industrial Complex. Through these complex relationships, crimes like these will continue and American tax dollars will be wasted.

Theories of Organizational Crime

There are three main theories which attempt to explain organizational crime: Social psychological, organizational, and political economy. Each of these theories is discussed below.

Social psychological, or differential association theory, explains deviant corporate acts as being a result of associations between persons within organizations that perpetuate criminal behavior. By associating oneself with others who condone, or promote, deviant acts, a person is likely to commit the actions that s/he learned - whether deviant or not. This theory has received much criticism, as many contend that using the individual as the unit of analysis is problematic. Rather, many criminologists argue that corporate crime is organizational crime and its explanation calls for an organizational level of analysis. "Preoccupation with individuals can lead us to underestimate the pressures within
society and organizational structure, which impel those individuals to commit illegal acts” (Schrager and Short, 1978, p. 410).

The organizational perspective argues that the organizational structure influences actors within the organization in such a way that it places significant pressures upon these actors to commit corporate wrongdoing. As Kauzlarich and Kramer (1998, p. 145) observe, “Organizations ... are strongly goal oriented and concerned with performance, while norms governing the means to achieve these goals may be weak or absent.”

Two other factors which may influence organizational crime are available means and lacking social controls. Braithwaite (1989) also contends that the prosperity of organizational wrongdoing is contingent upon illegal means being available to the organization, while Finney and Lesieur (1982, p. 275) contend that, “whether or not a strong performance orientation and operating problems lead to crime depends also on the operationality of various social controls.”

The political economy perspective argues that corporations exist within the framework of the larger social structure. Those who adopt this perspective contend that corporate crime is shaped by patterns of economic organization and the distribution of political power. Furthermore, the unique structural features of corporate capitalism and
the pressures for capital accumulation are theorized as causal factors leading to corporate crime. Although similar to the organizational theory, "the critical difference is the way in which the political economy perspective stresses the shaping and constraining influence of the broader historical, institutional structure of society on organizational behavior" (Kauzlarich and Kramer, 1998, p. 147)


The framework is based on the proposition that criminal behavior at the organizational level results from a coincidence of pressure for goal attainment, availability and perceived attractiveness of illegitimate means, and an absence or weakness of social control mechanisms (p. 148).

Organization managers must be motivated to utilize corporate wrongdoing as a means of achieving organizational goals. However, without the opportunity to achieve legitimate goals, motivated organization managers may choose to use illegal means. Furthermore, "even if legal means are available, agents may still decide to use illegal
means in the pursuit of their goals if the norms or cultural definitions of
the organization support them" (Kauzlarich and Kramer, 1998, p. 150).

Social control mechanisms are the final piece of the integrated
framework. Specifically, “social forces exist at all three levels of analysis,
exerting pressure on organizations and organizational actors and
checking their efforts to select illegal means to goal attainment”
(Kauzlarich and Kramer, 1998, p. 151). Weak or absent social control
mechanisms may allow an atmosphere where corporate wrongdoing can
flourish.

A wide range of social controls exist at the structural level, such as
legal sanctions, public opinion, mass media, social movement
organizations, or watchdog groups (Kauzlarich and Kramer, 1998).
“Internal cultures of compliance may regulate the behavior of
organizational actors” at the organizational level, while “strong ethical
standards may be an important bulwark against involvement in
opportunities for organizational crime” at the individual level (Kauzlarich

Methods

For this research project, a case study design will be used. A case
study design typically provides a complete and detailed account or
description of a particular phenomenon, along with a careful and systematic analysis of that phenomenon. Such a qualitative case study is thought to be the best way to advance our understanding of corporate crime as a social phenomenon. According to Stakes (1995, p. xi) the case study is "... the study of the particularity and complexity of a single case, coming to understand its activity within important circumstances." Furthermore, Merriam (1998, p. 34) describes the case study as "... an intensive, holistic description and analysis of a single entity, phenomenon or social unit." In this research, state-corporate crime in the defense industry (as related to the General Dynamics Corporation) is the "case" to be studied.

Case Study Strengths

There are many arguments in support of this type of method. Case studies allow the researcher to study "human events and actions in their natural surrounding" and "to ground the observations and concepts with which she or he works" (Feagin, Orum, Sjoberg, 1991, p. 7). This allows for a very detailed and in-depth study. Additionally, because the case study examines people in their natural settings it "permits the observer to render social action in a manner that comes closest to the action as it is understood by the actors themselves" (Feagin et. al., 1991, p. 8).
Another advantage of case studies is they study a phenomenon in its entirety. This allows researchers to advance empirically and theoretically by understanding larger social complexes of actors, actions, and motives. Whereas quantitative methods are very shallow in their depth, case studies allow researchers to better understand the complexities of the phenomenon; complexities such as the impact of beliefs and decisions, effects of decisions, sense of actors motives behind decisions, and how humans develop definitions of the situation (Feagin et. al., 1991). Feagin et. al. (1991) contend that:

the advantage of case studies (as we perceive them) is that researchers who utilize them can deal with the reality behind appearances, with contradictions and the dialectical nature of social life, as well as with a whole that is more than the sum of its parts. The case study approach that takes into account these kinds of assumptions can ... provide us with fundamental sociological knowledge of human agents, communities, organizations, nation-states, empires, and civilizations. (p. 39)

Furthermore, as Braithwaite (1984) observes:

My view is that statistical studies are perhaps as premature today as they were when Sutherland undertook the first statistical study of corporate crime. Without a qualitative understanding of the contours of corporate crimes and how they unfold, we cannot begin to comprehend what lies behind the quantitative descriptions (p.7).

Additionally, case studies “enable a researcher to examine the ebb and flow of social life over time and to display the patterns of everyday life as they change” (Feagin et. al., 1991, p. 12). Case studies also allow
for the development of new theory. By using a case study method, one is able to challenge existing theory and, more importantly, expand areas of existing research as Edwin Sutherland did with his study of white collar crime.

On theoretical and empirical grounds, a case can be made that various major organizational issues cannot be addressed until in-depth case studies come to be viewed as not just an adjunct to the natural science model but as having an independent role of their own in advancing sociological principles regarding bureaucratic structures (Feagin et al., 1991, p. 55).

Organizations within our society are very powerful, and as such they are very difficult to study without using the case study approach. "Many social researchers lament, directly or indirectly, the fact that powerful organizational elites are uncooperative, but they fail to realize that secrecy is a fundamental means of sustaining power and influence" (Feagin et al., 1991, p. 56). The secrecy and power that organizations have shields them from sociological scrutiny. However, by using a case study many undesirable activities undertaken by organizations can be unveiled.

Case Study Weaknesses

The first criticism of qualitative methods is that they are not able to show how two separate phenomena are related without examining several different instances in which both phenomena are present. Therefore the
researcher isn't able to show that the connection between the two is real (Feagin et al. 1991). Although this criticism is well noted, it isn't as problematic as it seems. According to Feagin et al. (1991), "sometimes the study of a single case, which is construed to be a deviant case, may help to illuminate how the more general social process under discussion works" (p.16). Also, a researcher is able to bypass this problem by comparing the results of several case studies to each other. Glaser and Strauss successfully show this in their book *The Discovery of Grounded Theory*.

The validity of documents may be problematic too (Yin, 1994). Yin reminds us that documents are not written for the researcher, therefore, scrutinizing the document's proposed legitimacy is crucial. Likewise, the writer's motive for writing the document may lead to bias too. A Republican critique of a Democratic presidential candidate could highlight the importance of knowing a writer's motive. Subsequently, it's important to understand both whom the document was produced for, as well as whom the document was produced by, as both weigh heavily on the reliability and validity of a document.

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Data Collection

Data for this case study are of two types and have been collected from a variety of sources. The data consist of documentary materials (such as public records and reports), legal documents, and journalistic accounts. The major sources of data include the following:

1. **Reports by the President’s Blue Ribbon Commission on Defense Management (The Packard Commission).** The Final Report of the Packard Commission and their report Conduct and Accountability was obtained. These reports contain numerous appendices which are various private sector reports and surveys on the defense industry.

2. **Reports from the Inspector General of the Pentagon.** The Pentagon’s own Inspector General has carried out several audits and investigations that shed some light on the misconduct of defense firms. These reports were obtained from the Pentagon.

3. **General Accounting Office (GAO) Audits.** The GAO, the investigative arm of Congress, has also audited defense contracts on several occasions uncovering various illegalities. These GAO audits are used.

4. **Congressional Committee Investigations.** A number of Congressional Committees have held hearings and conducted investigations concerning wrongdoing within the defense contracting
system. Reports from the following Congressional Committees are used:
(a) Investigative Subcommittee of the House Armed Services Committee,
and (b) Senate Armed Services Committee.


6. Journalistic Accounts. A major source of data comes from newspapers, magazines, journals, and books. Journalistic accounts of illegal acts by defense contractors have been collected from the New York Times, Washington Post, Wall Street Journal, Time, Newsweek, Nation, the various business magazines, trade journals, and books on the defense industry.

7. The Project on Military Procurement. The Project on Military Procurement is a private, non-profit organization whose goals are to make the public, the press, and Congress aware of the fraud, waste, and abuse in the military budget, and to reform the Pentagon procurement system. Two separate books from Dina Razor, the founder of The Project on
Military Procurement, provide valuable insight into the culture of defense industry procurement.

8. Foreign Affairs and National Defense Division Briefs. Briefs from the Congressional Research Service that outline necessary reforms needed within the defense procurement system, and summarize alleged fraud, waste, and abuse by the General Dynamics Corporation are used.

Overview

Chapter II, The Trident Submarine Procurement: A Case Study, describes the procurement process that was followed by the General Dynamics Corporation when they received the contract from the Department of Defense to build the first Ohio class nuclear-powered Trident ballistic missile submarine at a cost of $1.5 billion. The case study describes the involvement of General Dynamics, Takis Veliotis (the former general manager of the Electric Boat Division of General Dynamics), and Admiral Hyman Rickover (the former head of the Navy's shipbuilding program) as they each participated in the frauds surrounding the procurement of this lucrative contract.

Chapter III, State-Corporate Crime in the Defense Industry: An Analysis, analyzes the procurement process and the military industrial
complex to explain why the crimes surrounding the procurement of the 
Trident submarine occurred.

Chapter IV, *Summary and Conclusion*, briefly summarizes the 
methods I used to complete this case study and the findings. This chapter 
also gives a general conclusion, provides policy recommendations, 
discusses limitations of the study, and discusses ideas for future research 
on state-corporate crime in the defense industry.
CHAPTER II

THE TRIDENT SUBMARINE PROCUREMENT: A CASE STUDY

Who else can record the largest loss in history, over five billion for tax purposes, at the same time record a two-billion-dollar profit for SEC purposes, and still pay no federal income taxes since 1972?

Who else can buy in on a major defense contract, do a miserable job of managing the construction of the weapon system, overrun fixed-priced contracts by one billion dollars, be willing to settle a claim against the government for one hundred and fifty million dollars, and later receive close to one billion dollars in taxpayers' money?

Who else could use non-conforming steel in a submarine, foul up the welding program, suffer a total collapse of its quality control program, make a preposterous claim against the Navy insurance process, and then obtain another government bail-out?

What small contractor could suffer the wrath of the Secretary of the Navy, go to the White House and meet with Mr. Meese, then have a pleasant meeting with the Secretary of the Navy that results in the Assistant Secretary running out to your corporate limousine like a puppy dog to assure you that the Navy will take care of you? And where else can the Assistant Secretary get hired eighteen months later as an executive vice president? Mr. Chairman, the questions continue.

(Congressman Gerry Silorski of Minnesota addressing General Dynamics Chairman of the Board David S. Lewis during a 1985 Congressional Hearing.)

General Dynamics has been a major contributor to the phenomenon of state-corporate crime in the defense industry. For the past twenty-five
years General Dynamics has been repeatedly investigated for criminal behaviors. However, of the many questionable activities General Dynamics has been involved with, their procurement of nuclear-powered attack and Trident ballistic missile submarines has received the most attention. The majority of the allegations revolved around three actors: former general manager of the Electric Boat Division of General Dynamics, Takis Veliotis; the former head of the Navy’s nuclear-powered shipbuilding program, Admiral Hyman Rickover; and the General Dynamics Corporation itself.

Description of Event

The episode at the Electric Boat Division, like most instances of crime at this level, was very complex. It all began when the Electric Boat Division of the General Dynamics Corporation, between 1971 and 1973, received contracts from the Navy to build 18 Los Angeles class nuclear-powered attack submarines at a cost of $665 million each. Additionally, in 1974 Electric Boat received a contract for the first Ohio class nuclear-powered “Trident” ballistic missile submarine at a cost of $1.5 billion each (O'Rourke, 1985). However, by 1976 neither contract was on schedule and both were producing cost overruns of hundreds of millions of dollars. Consequently, both the Electric Boat Division and the United States Navy
were accusing each other for the dismal state of affairs. According to O'Rourke, 1985, “The Navy placed the weight of the blame on management problems at Electric Boat; Electric Boat placed the weight of the blame on detailed plans supplied by the Navy and numerous design changes ordered by the Navy once the ships were under construction” (p. 1). Electric Boat, charging lost revenue caused by the Navy's unnecessary changes, filed a claim for reimbursement in the amount of $544 million. And in December of 1977, exactly one year later, Electric Boat threatened to file new claims that would raise the total claims to $843 million. Three months later, in March of 1978, General Dynamics notified the Navy that all work on the submarines at Electric Boat would be halted unless a satisfactory agreement could be reached. After an extension was given on the original deadline, the Navy and Electric Boat reached an agreement (O'Rourke, 1985).

The $843 million claim that Electric Boat threatened to file was the figure used for the settlement. As a condition of the agreement Electric Boat was awarded $125 million of the $843 million. The remaining $718 million was to be divided equally between Electric Boat and the Navy in the form of an absorbed $359 million loss over 6 years by Electric Boat, while the Navy would pay Electric Boat the remaining $359 million. Additionally, 50% of any additional cost overruns, up to $50 million,
would be paid by the Navy and up to another $100 million in inflationary cost overruns (O'Rourke, 1985). The final cost to the Navy, either paid or obligated to pay to Electric Boat, was $634 million. This sum was 75% of the threatened $843 million reimbursement claim, or an incredible 116% of the actual claim filed by Electric Boat.

Up to this point the Navy had not accused General Dynamics, or its subsidiary Electric Boat of any criminal violations. However, in January of 1979 the Justice Department opened an investigation regarding possible fraudulent claims made by Electric Boat. Although General Dynamics Chairman David Lewis insisted their claims were thoroughly documented and that their “[i]dea of fraud is, I think, absurd” (Anderson, 1984, p. 61), the accusations continued. According to Vice Admiral Earl B. Fowler, Commander, Naval Sea Systems Command, “faulty welds and inferior steel had ‘significantly delayed’ construction of the subs and increased the cost” and “he characterized the standard of workmanship as ‘shocking’” (O'Rourke, 1985, p.2). This prompted Navy Secretary John Lehman to remove three submarine contracts from competitive bids and award them on a sole source basis to Newport News Shipbuilding and Dry Dock Company of Newport News, Virginia. Subsequently the general manager of Electric Boat, Takis Veliotis, testified before the Seapower Subcommittee that “Navy designers and inspectors, and Navy-furnished
equipment, were to blame for the construction delays” along with “a large volume’ of design changes ordered by the Navy once the boats were under construction” (O’Rourke, 1985, p. 3).

Secretary of Defense Casper Weinberger denounced Electric Boat for its workmanship and less than a month later the Navy announced that it would not award the next Trident contract to Electric Boat, even though they had received the contracts for the previous eight.

Surprisingly though, after Veliotis warned the Senate Appropriations on Defense subcommittee that “switching submarine work to Government shipyards would erode the private industrial base and complicate naval shipbuilding” (O’Rourke, 1985, p. 3), the Navy changed its mind. Less than a month after its original statement that it would not award the Trident contract to Electric Boat they issued a report stating “most of Electric Boat’s problems had been solved and that the firm was capable of building both Tridents and attack submarines” (O’Rourke, 1985, p. 3).

From this point forward the relationship between Electric Boat and the Navy soured. Admiral Rickover again blasted Electric Boat “for their ‘ruthless money-making schemes’ and of subverting competition by submitting unrealistically low bids and then raising the price of the ships once the contracts were awarded” (O’Rourke, 1985, p. 3). Two months later on June 19, 1981, Secretary of the Navy Lehman accused Electric
Boat of "filing 'rip-off' and 'preposterous' claims to gain reimbursement for their own faulty work" (O'Rourke, 1985, p. 3). After official denials of the accusations, Electric Boat started campaigning to undermine Admiral Rickover, who was a constant thorn in Electric Boat's side. Rickover, who was Veliotis' nemesis, was "privately" accused by Electric Boat of "jeopardizing the safety of two subs during sea trials by failing to issue the proper commands" (O'Rourke, 1985, p. 4). Two months later the Navy and General Dynamics reconciled "as a result of the efforts of General Dynamics and the Navy" (O'Rourke, 1985, p. 4). The reconciliation was directly related to the Navy's decision to retire Admiral Rickover and General Dynamics decision to promote Veliotis to executive vice president of General Dynamics, a position not directly in control of the Electric Boat Division. By December of 1981 the Justice Department closed its investigation of Electric Boat without filing charges.

It appeared as though General Dynamics had side-stepped the Navy and Justice Department. However, in 1983 a Federal Grand Jury indicted, among other people, Veliotis for racketeering, conspiracy, filing false and fraudulent claims against the government, and bankruptcy fraud. Veliotis preempted the indictment by fleeing to Greece, his homeland, only to see General Dynamics quickly turn on him. Within a week of the indictment (September 14, 1983) General Dynamics
attempted to recover $8 million in damages from Veliotis, and the other three who were indicted with him, by filing suit in Federal Court in Delaware. General Dynamics contended the $8 million would cover the damages of the conspiracy to defraud the company that Veliotis and his associates had perpetuated (O'Rourke, 1985).

Veliotis soon realized a reconciliation with General Dynamics was impossible. In direct contradiction to previous statements involving the 18 submarine contracts of Electric Boat, Veliotis was now charging General Dynamics "submitted unrealistically low bids for the attack submarines, then filed fraudulent claims to make up the difference" (O'Rourke, 1985, p.4). After making a deal with the Justice Department for limited immunity, Veliotis spoke with federal officials and handed over documents. Although Veliotis had certainly hurt General Dynamics by turning states evidence against them, it appeared, at least at this point, that General Dynamics had gotten the better of Veliotis. Not only was Veliotis a fugitive in Greece, but General Dynamics also froze his 69,659 shares of General Dynamics stock. However, a year later Veliotis had made public two audio cassettes that directly implicated General Dynamics' chairman David Lewis for withholding internal corporate estimates that were required to be released to the Security and Exchange Commission (O'Rourke, 1985).
General Dynamics had to fight off other accusations too. This time claims surfaced that they bribed Admiral Rickover (their old nemesis) with gifts totaling $67,628.33. Under Clause 54 of the Navy’s attack submarine contract with General Dynamics, termination of the contract is authorized:

Upon a finding that gratuities (in the form of entertainment, gifts, or otherwise) were offered or given by the contractor ... to any officer or employee of the Government with a view toward securing a contract or securing favorable treatment with respect to the awarding or amending, or the making of any determination with respect to the performing of such contracts; provided, that the existence of the facts upon which the Secretary or his duly authorized representative makes such finds shall be issued and may be reviewed in any competent court (O'Rourke, 1985, p. 13).

Admiral Rickover was a career Navy man and somewhat of a tyrant. For 17 years he supervised General Dynamics' construction of nuclear weapons and although he was, at times, overbearing and intimidating, "his faults ... were outweighed by his readiness to denounce rip-offs by the big contractors and seriousness with which his pronouncements were received on Capitol Hill" (Fitzgerald, 1989, p. 194). General Dynamics, as it would later be discovered, was fully aware of Admiral Rickover's loyalties and from the very start of his 17 year supervision of them, they began constructing a snare that would eventually trap him. A few of the items General Dynamics documented were:
Miscellaneous commemorative items, such as mint julep cups and silver trays; estimated value $19,183.54.

Chauffeur services, including driving Admiral Rickover and his son to a New England boy's camp; estimated cost $16,387.13.

An assortment of food and other amenities supplied for Admiral Rickover's use during sea trials, including fresh fish, books, fruit, electric toothbrushes, and candy; estimated value $12,000.

(Biddle, 1985, p. 13)

Although Lewis stated that "nothing was ever given to Admiral Rickover with an intent to obtain a contract or to secure favorable determination" (O'Rourke, 1985, p. 14), the Navy fined General Dynamics ten times the amount of the gifts (the maximum allowed by federal law) which amounted to $676,283.30. Furthermore, according to O'Rourke (1985) "the Navy was: (1) suspending the Electric Boat and Pomona, CA divisions of General Dynamics from all new contracts; [and] (2) canceling $22.5 million in contracts held by the two divisions..." (p. 11).

Additionally the Navy stated it would not lift the suspension until "General Dynamics: (1) established a code of ethics for its employees; (2) certified the validity of outstanding overhead billings; and (3) resolved $75 million in disputed overhead billings with the Navy" (O'Rourke, 1985, p. 12).
Shortly thereafter, in July of 1985, the ban was lifted and Electric Boat,

was awarded a $616 million contract for the basic hull of the 12th Trident and an important $28 million contract for preliminary design work on the SSN-21, the Navy's proposed new attack submarine. Another $400 million in contracts would be awarded 'very soon' (O'Rourke, 1985, p. 13).

The sequence of events listed below in Figure 1 was detrimental to the American public. Although nobody was killed or maimed due to these crimes, the American public's trust in military contractors and the government was severely damaged. Consistently, the Navy allowed General Dynamics and Electric Boat to circumvent prosecution for illegal acts they committed. Also, the minimal fines General Dynamics and Electric Boat did occasionally pay were paltry compared to the amount of money they made from their illegal activity. Additionally, the financial cost American taxpayers had to endure was incredible. With contracts reaching hundreds of millions of dollars, the hardships sustained due to the bid-rigging schemes proved to be astronomical.

For at least 25 years, and probably longer, General Dynamics and Electric Boat defrauded the government of billions of dollars. In addition to fraud, General Dynamics committed additional crimes such as bribery, bid rigging, "buying-in", illegal charges to government bills, racketeering, extortion, and conspiracy. All of these acts are criminal offenses,
Between 71'– 73' EB contracts with Navy to build 18 LA Class nuclear powered attack subs.

3/76 - Both contracts are behind schedule and producing significant cost overruns.

12/76 - EB files a claim against the Navy for reimbursement of $544 million lost due to Navy order changes.

3/78 - GD notifies the Navy that all work on the submarine contracts would be halted unless an agreement was reached on the reimbursement claims.

6/78 - An agreement is reached between GD and the Navy where the Navy pays 118% of the claim that was filed.

3/81 - Navy Secretary Lehman removes 3 submarine contracts from competitive bids and awards them to Newport News Shipbuilding and Dry Dock Company.

3/81 - EB General Manager, Takis Veliotis, testifies against the Navy.

4/81 - Navy announces won’t award next Trident contract to EB.

4/81 - Navy reverses its decision and awards the Trident contract to EB.

4/81 - Admiral Rickover again accuses EB of illegal activities.

6/81 - Secretary of Navy (Lehman) accuses EB of illegal activities.

7/81 - Admiral Rickover accused of endangering the safety of 2 submarines

10/81 - Navy retires ADM Rickover and GD promotes Veliotis to Executive VP of GD.

12/81 - DOJ closes investigation of EB without filing charges.

7/74 - EB receives 1st Ohio class Trident submarine contract.

12/77 - EB threatens to file new claims totaling $844 million.

1/79 - Investigation of GD opened by the Justice Department (DOJ) after Admiral Rickover alleges the EB made fraudulent claims in regards to their submarine contracts.

7/83 - Veliotis flees to Greece.

9/83 - Federal Grand Jury indicts Veliotis for racketeering, conspiracy, filing false & fraudulent claims against the government, and bankruptcy fraud.

9/83 - GD files suit against Veliotis to recover $8 million in damages.


Figure 1. General Dynamics Order of Events.
however, none of the actors listed above spent a day in prison because of their illegal actions. Furthermore, I contend American military personnel were victimized twice: once as taxpayers who had, and still have to, pay for these crimes; and a second time because they were required, even ordered, to use faulty equipment sold to the U.S. military services by General Dynamics as quality merchandise. Most fraudulent claims made by defense contractors are deliberate and intentional, and in the case of other weapons systems not discussed here, have maimed and killed those who were obligated to use them for their safety.2

Undoubtedly this unacceptable situation (created by the U.S. government, General Dynamics, and Electric Boat) was a collective act. Although the three entities may not have deliberately conspired to create this situation, their refusal to take measures to prevent it from occurring makes them responsible for the current state of affairs in the defense

2 One of the most disgusting examples of fraudulent claims which lead to the death of many soldiers during Viet Nam war was the procurement of the AR-15 rifle. After the Army made three unneeded design changes to the critically acclaimed AR-15, the once reliable, accurate, and most lethal combat rifle of its era, became unreliable and consistently malfunctioned. Many U.S. soldiers were killed by the Viet Cong because the weapon malfunctioned on a consistent basis.

During the Viet Nam war, it was common practice for the Viet Cong to strip U.S. soldiers of their equipment after killing them in combat. As a testament of the weapons uselessness, the Viet Cong would rarely take the M-16, as they too knew it was worthless (Fallows, 1981, pp. 85-101).
industry. However, key personnel within General Dynamics and Electric Boat did intentionally conspire to defraud the government, which was amply documented. Additionally, a major deficiency within the checks and balances in this industry is that the entities with the power to enforce the laws, thus ensuring illegal activity is thwarted, do not subject the actors to the punishment they deserve. Consistently, as top level executives were accused of crimes, the government refused to either enforce the law properly, or adhere to the punishments they issued.

An example of government unwillingness to take these crimes seriously was the creation of the Packard Commission. On the surface it would appear that, by creating this commission, the government was serious about cleaning up the procurement process in the defense industry. However, the Packard Commission did not establish any standards with any "bite" to them. Instead the Commission initiated the following codes:

1. Each company will have and adhere to a written code of business ethics and conduct.

2. The company's code establishes the high values expected of its employees and the standard by which they must judge their own conduct and that of their organization; each company will train its employees concerning their personal responsibilities under the code.

3. Each company will create a free and open atmosphere that allows and encourages employees to report violations of
its code to the company without fear of retribution for such reporting.

4. Each company has the obligation to selfgovern by monitoring compliance with federal procurement laws and adopting procedures for voluntary disclosure of violations of federal procurement laws and corrective actions taken.

5. Each company has a responsibility to each of the other companies in the industry to live by standards of conduct that preserve the integrity of the defense industry.

6. Each company must have public accountability for its commitment to these principles.

(Kurland, 1993, p. 138)

This code is an obvious attempt to sidestep the heart of the problem. Mr. Packard, the founder and then chairman of Hewlett-Packard, used words like responsibility, obligation, and integrity, as if the corporations within the defense industry knew what these words meant. Mr. Packard did not set any guidelines for punishment or even attempt to get tough with violators of the law. As a matter of fact, the corporations were not even required to sign the Defense Industry Initiative (DII). According to Fitzgerald (1989), "He [Packard] didn't want them to be held responsible for their past sins, just for crimes in progress. It was like arguing that crooks should be punished only while they were actually stealing, mugging, or raping" (p. 231).

These types of crime are clearly organizational crimes. Although Veliotis and others within General Dynamics certainly made a lot of
money from their illegal activities, they were advancing the profitability of the corporation too. Additionally, they each benefited financially because of all the stock they owned in the company. According to Veliotis' statements to Mike Wallace of 60 Minutes,

Chairman David Lewis, before he pressured the Navy into paying up, lied to the Congress and to his own stockholders about how much money the company was losing on the submarine program. Lewis lied ... to keep General Dynamics stock from sliding” (p. 2).

General Dynamics defrauded the government by underbidding their contracts and then filing false claims against the government to make up for their low bids. They also extorted the government by threatening to cancel the submarine program, for which they were the only company in the U.S. that could complete this contract, therefore putting the national defense of this country at risk. They also committed perjury, while at the same time putting the lives of service men and women at risk by delivering weapons systems they knew were faulty.

Admiral Rickover was not legally guilty of breaking any criminal laws, although he broke ethical standards by accepting thousands of dollars worth of gifts from Veliotis and General Dynamics. His actions were questionable and gave the perception of illegality which eroded the confidence the American taxpayers and his superiors had in him. Unfortunately, this type of situation occurs all too often.
In sum, the actors in this scandal committed criminal and unethical acts. Bribery, fraud, bid-rigging, and the filing of false claims were the crimes committed by the actors in this case study.
CHAPTER III

STATE-CORPORATE CRIME IN THE DEFENSE INDUSTRY: AN ANALYSIS

State-corporate crime in the defense industry is a neglected topic within the overall study of crime in the United States. This chapter will outline the procurement process used to buy weapons systems, and the concept of the military industrial complex. Understanding these two topics will help explain why the crimes described in chapter II occurred.

Procurement Process

The procurement process itself is a casual factor contributing to fraudulent activities within the defense industry. According to Rasor (1985), "[t]he key to the problems at the Pentagon is procurement ..." (p. 116). The process is full of red tape and complexity and goes through phases of development.

After receiving congressional approval to build a weapon, an armed service selects a program manager. This manager establishes a staff of 200-500 personnel within the research and development arena of the armed service. At certain points determined by the armed service, the decision to proceed further in the process is made.
Phase I signifies the initiation of the program, while advanced development, or termination of the process, is decided at Phase II. Once approved at Phase II, it's virtually impossible to cancel the process. Redesigning and testing of prototypes is accomplished between Phases II and III. And finally, at Phase III, the decision whether to initiate further research and development, and limited production, or to begin full production of the weapon system is decided. All of the decisions to proceed to subsequent phases are made by committees within the appropriate command and reviewed by the Pentagon's Defense System Acquisition Review Council (Rasor, 1982).

In theory, the above process is how the procurement process works. However, according to Anthony R. Battista, a House Armed Service Committee staff member, "programs are freight trains ... once they get started, it's very hard to turn them off, even if they don't make sense" (p. 157). Why is this so? Why is it so difficult to stop a bad weapon system from advancing to a higher level of ineffectiveness? Problems within the following three procurement areas, in particular, contribute to this faulty process.
Testing

Testing is a very important part of the procurement process, for it is here weapons are confirmed as being ready for effective use in combat situations. There are two components of the testing period: developmental and operational. According to 1981 testimony by Russell Murray, former head of the Department of Defense Program Analysis and Evaluation:

The object of development testing is to find out whether a new weapon meets its technical specifications. The object of operational testing is to find out if the weapons - even if it does meet specifications - will really be useful in combat. Developmental testing is conducted by highly trained scientists, technicians, and specialists under tightly controlled, laboratory-like conditions. Operational testing is conducted out in the field by run-of-the-mill servicemen under conditions simulating wartime as closely as possible.

During developmental testing, the most abusive practice is falsifying test results. Those who test weapons systems are under considerable pressure to advance weapons through the system, even if they're not operating satisfactorily. The major problem with operational testing is outright cheating while testing the weapons, or lying once faulty results are reported. Perhaps the best way to make one understand this type of abuse is to highlight instances where this has occurred.

The M-1 tank case is an excellent example of lying when presenting test results. While investigating the M-1 tank, Dina Rasor, of the Project
of Military Procurement, discovered many deficiencies the Army was trying to cover-up. The engine and power-train were seriously flawed and were unable to meet the Army's own requirements. One requirement the Army had for the M-1 was that it travel 101 miles between engine failures. After the second round of operational testing (OT II), the Army's own records showed the M-1 failed seriously every 34 miles. However, after "adjusting" the figures, the Army reported the M-1 broke down every 93.97 miles - only 7 miles under their requirement.

The power-train had serious problems too. The Army requirement was that 50 percent of the M-1's had to go 4000 miles without needing a power-train overhaul. Once again, according to the Army's own documents, the M-1 reached a rate of only 22 percent. When confronted about this shortfall, the Army stated the M-1 had reached the 54 percent requirement during OT II. The truth was, however, that the OT III test results showed the M-1 had actually dropped to 19 percent, not increased to 54 percent as the Army contended (Rasor, 1985).

The Maverick missile case is a good example of how "the procurement bureaucracy is perfectly capable of fudging or downright cheating on test results" (Rasor, 1985, p. 120). The Maverick is an air-to-ground anti-tank missile used by the A-10 assault aircraft and the F-16 fighter. It works by sending out heat images through the use of an infra-
red sensor in the nose of the missile. These visual images are relayed to a five-square-inch video screen in the cockpit where the pilot is required to differentiate between acceptable targets such as tanks, and other unacceptable targets such as fires, smoke, burning bushes, and sun-warmed objects. Therefore, theoretically, the pilot, armed with his heat seeking Maverick missile, should be able to single-handedly seek out and destroy tanks or other targets. The Army, knowing the difficulties of actually accomplishing this, fixed the test so as to allow for the greatest amount of success. The first advantage that was allowed in this test was the use of PAVE PENNY, a device which allows the pilot to see a laser “spot” put on a target by an infantry man in the combat zone. In addition to the help afforded to the pilots by PAVE PENNY, the pilots learned the layout of the testing area by making numerous practice flights over it. Of 123 “captive-carry passes” (trying to electronically lock-on to targets without actually firing), excluding practice runs, less than 60 percent of the attempts locked-on to true targets, with the remainder not producing lock-ons or they locked-on to false targets (Rasor, 1985).

Two years later the Air Force ran new tests on the Maverick, attempting to show that the failures documented in the previous test had been corrected. As before, PAVE PENNY was used to assist the pilots. Additionally, 317 practice flights were used but not counted as part of the
The Air Force counted 215 passes with only 113 resulting in lock-ons, one-third of the 113 were cued by PAVE PENNY. Therefore, only 76 of the 215 lock-ons, or 35 percent, were credited to the Maverick!

According to Rasor (1985):

[O]ne of the areas of cheating on the operational tests that I thought was especially dishonest was allowing pilots hundreds of dry runs over the targets to memorize them before the first shot was fired. That might have been acceptable in a developmental test where engineers were fine-tuning the weapons, but it was inexcusable in an operational test because no enemy is going to allow hostile aircraft to fly over its territory and memorize the landscape. In fact, to truly simulate combat conditions, someone should be assigned to think like the enemy and try all types of evasive countermeasures to defeat the weapon. But this is rarely done even in operational testing (p. 123)

**Competition**

A lack of competition is a major problem within the procurement process. According to the Government Accounting Office, as cited by Rasor (1985) "in 1981 only 6 percent of the Pentagon's procurement budget was competitively bid" (p. 128). Seemingly, the government has adopted an informal policy of awarding the more expensive sole-source contracts instead of seeking competitive bids for weapons systems. When a company receives a sole-source contract they are the only contractor allowed to bid on that particular contract. This has significantly increased the price the government pays for products that it buys from
contractors. Additionally, this type of process has encouraged contractors to "buy-in" to a contract, knowing that once they receive the initial contract all subsequently related contracts will be theirs too. According to Rasor (1985) "obviously the contractor, knowing that all he has to do is win the first competition, thereby capturing all the follow-on contracts, will not be encouraged to keep costs down" (p. 128). Thus, the incentive given to contractors is to win the early contract, even at a financial sacrifice, in order to reach the placid waters of the lucrative follow-on contracts negotiated in a sole-source atmosphere" (Stubbing, 1986, p. 177).

A prime example of this is the procurement of spare parts. Once a contractor wins a contract, he is almost guaranteed the follow-on contracts that involve spare parts. By adding costs such as Quality Control, Quality Assurance, Program Planning, and other costs of doing business, the contractor is able to dramatically increase the price of the spare parts.

Pricing

The bottom line, at least to taxpayers, is the cost of weapon systems. In an attempt to devise a way to pay a fair price for weapons, Ernie Fitzgerald (1989) introduced the concept of "should-cost" pricing,
“which means we would pay only what goods and services should cost, according to industry standards” (p. 17). The government seemingly prefers to figure costs according to past prices paid.

In other words, they estimate how much a weapon ‘will cost’ based on the price of the weapon it is replacing, plus additions for any new innovations. As a result, an increasingly unrealistic baseline for pricing our weapons incorporates into the system as ‘legitimate costs’ any waste, fraud, and mismanagement of the previous weapon (Rasor, 1985, p. 265).

Once a price has been artificially inflated, the government relies on the inflated price as a basis for the future price. Consequently, these prices continually increase due to new baseline figures for each subsequent contract. Therefore, what the government pays for an item is significantly higher than what the item is actually worth. As Fitzgerald (1989) notes, “they [the Pentagon] never learned that any piece of goods sold to the government ought to be priced as what it should cost to make or require economically and efficiently, plus a moderate, decent profit” (p. 159).

Donna Martin of the Project on Military Procurement, succinctly summarized the concept of should-cost pricing:

There are many elements that go into deriving an appropriate should-cost formula. For example, industrial engineers can judge the efficiency of factory labor by using the concept of “working measurement” and calculating the cost of what is called a “standard hour of output.” A standard hour of output is the amount of work that can be reasonably expected to be performed by an experienced
worker in an hour's time. It should be emphasized that the standard hour is a measure of work output and has no necessary relationship to time actually expended in doing a job. It is used as a standard for comparing what should reasonably be accomplished in an hour, versus what is actually accomplished.

A dollar and cents charge for a standard hour of output is determined by an industrial engineering formula and those charges may vary from task to task and contractor to contractor. Fitzgerald and his associates have found that the charges the government pays for the standard hour of output for defense contracts are considerably higher than what is charged in the private sector. For example, Dr. Thomas Amlie, one of Fitzgerald's deputies, ... found that companies in the electronics field charge an average $25 to $35 per standard hour of output. In contrast, the government pays anywhere from $99 to $3300 to defense contractors for comparable output ... (Rasor, 1985, 266)

The procurement process, as we can see, is seriously flawed. As such, it's designed to perpetuate a system of, what I call, "reverse rewards." Throughout the process, no-one is rewarded for saving money, increasing product quality, or demonstrating efficient, ethical practices. Instead workers, managers, government officials, Chief Executive Officers, and Presidents (both political and private) are seemingly rewarded for supporting an inefficient and criminalistic procurement process. Therefore, one is rewarded (financially or through increased power and status) for maintaining a system that is the reverse of any logical business-like atmosphere. In other words, by reversing the norms found within any successful business, such as efficiency, consumer
satisfaction, and quality, with norms such as inefficiency, consumer
dissatisfaction, poor quality, and high cost, one is rewarded financially or
otherwise.

Consequently, it is through the potentially enormous rewards that
those within this system have justified their commission or omission of
actions. In our materialistic society the desire for these rewards
drastically outweighs the desire to do what many consider to be morally
correct.

Military Industrial Complex

The military industrial complex is a vital component which
facilitates and initiates state-corporate crime in the defense industry. The
military industrial complex consists of three major institutions within
society: Congress (State), Department of Defense (State), and a
Corporation (in this analysis, General Dynamics). It is through the
intricate interactions between these three institutions that state-corporate
crimes are committed. Each of these three institutions have goals which
are dependent upon each other. Although each of these institutions are
equally important within the realm of state-corporate crime in the defense
industry, I am going to begin by discussing the DOD’s role.
The DOD's primary goal is to provide national security for the United States. Historically this has been accomplished by using its technologically superior weapons - such as nuclear weapons in World War II, and smart bombs, the stealth bomber, and the patriot missiles during Desert Storm. It is through this desire for advanced weapons systems the DOD justifies its questionable procurement practices. This motivation for advanced weapon systems that will allow American service people to fight and win a war is primarily fueled by competition; competition between the different armed services themselves, as well as the absence of significant competition for contracts that are awarded by the military.

The DOD, like any other institution, is very competitive. The armed forces are continually competing against each other for money, personnel, recognition, and, most importantly, technologically advanced weapon systems. According to Eitzen and Zinn (1992), "[e]ach of the military services has a vested interest in maintaining and increasing its position relative to the other. The intense rivalries among the four services result in efforts by each to inflate its importance and demean the worth of the others" (p. 127). It is through these inter-service competitions that much waste and duplication is perpetuated.

The DOD also participates in another type of competitive ineptitude. Due to the specialized nature of the products it procures
(weapon systems), and the national security considerations which accompany them, the DOD is able to justify (at least in their minds) the very limited, and in many cases the total lack of, competitive bidding for their procurement contracts. As shown earlier, the vast majority of the military contracts are not competitively bid.

The goals and competition within the DOD allow a handful of corporations to benefit significantly. Corporations are in business for the sole reason of making a profit. And in the case of defense contracts, corporations are in a unique position to make an almost guaranteed profit. Furthermore, the way the system is structured allows for continual follow-on contracts which prove to be very lucrative for the contractor. Rewards such as future contracts, which are dependent upon receiving the initial contract, put an incredible amount of pressure on corporations to win the initial contract.

Several major contractors have managed to win these lucrative contracts by winning the support of major political actors within the state; more specifically within the Congress. To understand how congressmen can be "bought-out" by a corporation, it's important to understand that a politicians primary objective is to be reelected. Many contend the first item on a newly-elected politician's agenda is to work on getting reelected for another term in office. Defense contracting corporations are in a
unique position to help politicians attain this goal. The first way is through financial support. The expense involved in running, and winning, a political campaign is enormous. Therefore, by pledging financial support to these politicians, contractors expect some type of future "favor" in return. This favor is usually in the form of the politicians expected vote for a weapon system that would benefit the financially contributing corporation.

The second way a corporation is in a position to help politicians reach their goals is by the massive amount of political support (through constituents' votes) politicians receive when they support weapons systems that bring jobs to their constituents. And, as major weapons systems affect voters throughout the entire United States due to subcontracts, many politicians are affected by a single contract. This would then complete the circulatory nature of the military-industrial complex.

As Figure 2 below shows, each institution benefits from, and supports, each of the other two institutions. The DOD supports the corporations by awarding lucrative contracts to them, while the corporations support Congress by lending financial and political support to them, and Congress supports the DOD by allowing funding for the weapons they desire. Subsequently Congress supports the corporations
by voting for certain weapons that their "financially supportive corporation" is bidding on, while the corporation supports the DOD by providing future jobs through the revolving door (this phenomenon is discussed in more detail later), while the DOD supports Congress by establishing domestic and worldwide power.

Although actors involved in procuring the Trident Submarine knowingly committed illegal acts, the environment which allowed this type of activity to occur included several different organizations: DOD, Congress, and a Corporation (General Dynamics). Each of these organizations equally contributed to the Trident Nuclear Submarine fraud described in Chapter II.
Department of Defense

Men and women who work for the DOD hold influential positions within the most powerful military force in the world. However, due to the structure of the military many personnel get caught in what is known as the “revolving door.” According to Rasor (1985) “this usually means that an employee of one of the armed services takes a job with the defense contractor he was overseeing while he was with the military” (p. 140).

Retired Navy engineer, Dr. Amlie, most succinctly describes the revolving door dilemma:

The major problem with having a military officer in charge of procurement is his vulnerability. It turns out that not everyone can make general or admiral and our “up or out” policy [either get promoted or you’re not allowed to reenlist] forces people to retire. The average age of an officer at retirement is 43 years. Counting allowances, a colonel had more take home pay than a U.S. Senator. At the age of 43 he probably has kids in or ready for college and a big mortgage and can’t afford a large cut in his income. Besides, he is at the peak of his intellectual powers, is emotionally involved, and doesn’t want to quit. We throw him out anyway, no matter how good a job he is doing. Many of these officers, particularly the good ones who have spent most of their careers flying aircraft, operating ships, or leading troops, do not have the skills which are readily marketable in the civilian sector. This nice man then comes around and offers him a job at $50,000-$75,000 per year. If he stands up and makes a fuss about high costs and poor quality, no nice man will come and see him when he retires. Even if he has no interest in a post-retirement job in the defense industry, he is taking a chance by making a fuss. The “system” will, likely as not, discover a newly open job in Tule, Greenland;
Adak, Alaska; or some other garden spot for which he, and only he, is uniquely qualified. Thus, his family, as well as his career, suffers. To their everlasting credit, many fine officers have made a fuss anyway and suffered the consequences (Amlie, 1983, p.144).

The revolving door process is not an overnight process. According to the Post Dispatch (1985) “[t]here is planning involved. The process begins at least two or three years prior to the separation from government service, and the manager becomes soft on the contractor” (p. 30). This allows the DOD employee ample time to prove him/herself to the contractor, all the while neglecting the government’s interests. As we can see, the revolving door has serious implications for the procurement system. From the very beginning of weapons systems development, officials concerned about their future may purposefully neglect to vigorously perform their duties. This allows faulty weapons systems, or overpriced systems, to continue through the process until a faulty or overpriced product is delivered.

The revolving door turns the other way too. Not only do government employees (usually from the DOD) find employment within the private sector, but private sector employees also may find employment within the government. One such instance of a major conflict of interest was the appointment of David Packard to spearhead the President’s Blue Ribbon Commission. According to Fitzgerald (1989):
In naming David Packard as chairman, the administrator couldn't have found a man better equipped with massive conflicts of interest. The multimillionaire industrialist, chairman of the board of Hewlett-Packard, a big defense contractor and supplier to even bigger contractors, was also a member of Boeing's board of directors. And, as Nixon's deputy secretary of defense, he had managed the billion-dollar Lockheed bailout after the C5A disaster. (p. 227)

It's apparent the government, with appointments such as Packard's, is no less guilty than private industry of keeping the revolving door spinning. With such obvious conflicts of interest as this, the procurement system doesn't stand a chance of improving. Consequently, the Packard Commission was merely a public relations ploy devised to shift negative public scrutiny away from the dismal defense procurement system - unfortunately it worked.

Congress

The abuses are not restricted to those in the DOD. Congress, which allocates funds to the DOD, is guilty too. Congress participates in what is called "pork barrel spending." Pork barrel spending is when a congressperson votes in favor of legislation that brings jobs and/or economic improvements to his/her constituents. The legislation that we are most concerned with here is that which brings jobs in the form of defense contracts and subcontracts to the constituents of the congressperson. Therefore, even if a weapon system is unnecessary,
faulty, or overpriced, a congressperson will still vote for it if it will bring jobs, and therefore votes, to his/her district. As Stubbing (1986) notes:

For members of Congress - whose job it is to represent the interests of their constituents - the economic impact of the defense budget is simply too large to ignore. The pressures are strong for congressional representatives to “bring home the bacon” - by attracting new defense business or by protecting that which is already there. Defense contractors, in particular, are able to create strong pressures on Congressmen and their staffs through extensive Washington lobbying efforts. Large defense firms maintain full-time Washington staffs of 20-80 people who seek to assess the political atmosphere surrounding their programs and nurture close relations with key officials in Congress as well as the Pentagon. (p. 90)

In its simplest form, Congressmen are entrusted to “look-out” for their constituents by bringing jobs and economic security to their states. However,

[i]ronicaly, according to a study done by the Employment Research Associates in Lansing Michigan 320 of 435 congressional districts actually pay more in taxes for this defense than they get back in defense contracts. The states that have more money than they pay out are a few large states such as Virginia and California. So the pork-barrel-based defense system is really not an economic bargain for most. (Rasor, 1985, pp. 278-279)

Corporations

The actions taken by the above institutions are normally unethical at most, although at times illegal too. Corporations, however, frequently commit illegal, as well as unethical, acts in pursuit of their goals.
Although there are many instances where corporations in general commit illegal acts, those actions committed by General Dynamics' Electric Boat Division are under scrutiny here.

General Dynamics, like other corporations, has a primary goal of making a profit. The problem is when the desire for a healthy profit turns into greed, both individually and corporately. To better understand how the desire for profit influences corporate illegalities, it's important to look at organizational pressures which may predispose both individuals and corporations to this type of deviance.

Those who work for and/or head major corporations are under an enormous amount of pressure. Consequently, these pressures may encourage organizations to commit illegal acts. According to Lane (1953), "while it is generally (but not universally) true that economic gain is necessary for violations of the law to take place, marginal and declining firms are more likely to violate the law than prosperous firms" (p. 164).

Employees also face pressures because they depend on the organization for their own survival. Subsequently, these employees are fully aware that "as people they are replaceable, interchangeable parts, mere occupants of bureaucratic positions" (Simon and Eitzen, 1993, p. 299). Virtually powerless to fight the organization, employees follow procedures and commit acts that they otherwise may not have committed.
Furthermore, they are virtually required, for their own livelihood, to participate, and even perpetuate these actions. According to Rasor (1985), these actors "are your neighbors, uncles, or even husbands. Although some are just plain corrupt people, the majority are pressured by the bureaucracy to go along with the procurement system to advance their careers or even keep their jobs" (p. 137)

These pressures are part of a corporate culture. Those who lead major corporations, and those who are in other positions of power within these organizations, set the example for their employees to follow. Consequently when executives do not take steps to ensure illegal acts are not being committed, an atmosphere of illegality may evolve. According to Katz and Kahn (1966), organizational roles give persons within a corporate setting expectations "which may include preferences with respect to specific acts and personal characteristics or styles; they may deal with what the person should do, what kind of person he should be, what he should think, or believe, and how he should relate to others" (p. 175). Likewise, when executives initiate certain actions (through their commission or omission) their subordinates are conditioned into inappropriate behavior. According to the Post Dispatch (1985) "[t]he top man has authority over promotions, bonuses, [and] transfers. And he doesn't want any big tussles with the contractor. This translates into a
type of cultural conditioning, and the message is clear: 'Don’t rock the boat.' Furthermore, "when your promotions and bonuses are based on not finding anything wrong, you learn to find nothing wrong, and you finally become conditioned to believe there is nothing wrong" (p. 30).

With a better understanding of the procurement process and the military industrial complex, let’s explore how these two entities helped perpetuate the crimes outlined in Chapter II above.

The integrated framework offered by Kauzlarich and Kramer (see Chapter I) clearly shows how theoretical concepts can be applied to help explain why actual events may have occurred. Specifically, the General Dynamics corporation was clearly motivated to utilize corporate wrongdoing as a means of achieving its goals. Its primary goal was to make a profit for itself and its shareholders – which it accomplished. However, the means it used were, in many cases, illegal. Time and time again the U.S. Justice Department brought charges against the General Dynamics corporation for illegal acts they committed. This pattern of behavior clearly shows the company’s motivation to use corporate wrongdoing as a means of achieving its goals.

The opportunity for the General Dynamics corporation to commit these crimes has always been available. The process itself is not designed to prevent fraud. The lack of “should-cost” pricing and competitive bidding
are just two examples of areas within the procurement system that facilitate state-corporate crimes within the defense industry.

An "absence or weakness of social control mechanism[s]" is clearly evident too. Just as many times as the Justice Department brought charges against the General Dynamics corporation, charges were dropped. Additionally, on several occasions the Department of Defense threatened to deny future contracts to the General Dynamics Corporation, only to grant the contracts in due time.

By using an integrated framework, it is easy to see how these crimes were committed. The corporation was motivated to break the law; there were always ample opportunities to commit these crimes; and the social control mechanisms to prevent these crimes were either lacking or nonexistent.
CHAPTER IV

SUMMARY AND CONCLUSIONS

Throughout this thesis I examined government documents, and researched books, periodicals, transcripts, and journalistic reports which described the many instances of state-corporate crime found within the defense industry.

At the core of this type of crime is the military industrial complex. This organization features three very powerful entities (Congress, the Department of Defense, and a Corporation) responsible for facilitating and initiating the crimes found within this industry.

The General Dynamics Corporation was the focus of this thesis. I described the relationship the General Dynamics Corporation had with the Department of Defense (specifically the Navy) and with the Congress. Through a thorough analysis of available documentation, I was able to show that state-corporate crimes were committed within the defense industry. Just as importantly, I was able to show how commission of these crimes was facilitated by describing the procurement process utilized within the defense industry. By using a system designed to decrease cost savings, while simultaneously increasing corporate profits,
General Dynamics was able to defraud U.S. taxpayers of millions of dollars.

Policy Recommendations

Prevention of activities such as those that General Dynamics participated in, is possible. It's my contention that, in a perfect world, the laws already in existence would be capable of controlling state-corporate crime in the defense industry. Unfortunately, the agencies involved operate above the law. Congressmen, DOD officials, and corporate officers are all part of a corrupt environment. Regardless of known transgressions, violators are able to rely on those in positions of power within the government to exonerate them. In turn, those within the political realm benefit through kickbacks, or increased political support by the corporations that s/he exonerated. The system, therefore, is circular and never-ending because it feeds upon itself.

Because we don't live in a perfect world it is necessary to reform the procurement system, as well as initiate minor punishment reforms. The first policy that needs to be implemented is "should-cost" pricing. By using "should-cost" pricing corporations would no longer be able to charge outrageous prices for their products. This would also lessen individual desire for committing fraudulent activities because the enormous benefit,
in relation to the risk, would be substantially lowered. Also, this would make the bidding process more conducive to fair practices because the government could calculate the cost of programs as they progress. This would allow government auditors to substantiate accusations of fraud at any point during the life of the contract, and would virtually force contractors to operate legally.

In conjunction with “should-cost” pricing, competitive bidding must be, without exception, mandated by law. As cited earlier, only six percent of government contracts were competitively bid in 1981. The lack of competitive bidding considerably inflates prices. A prime example of how competitive bidding lowers the prices of weapons systems was the RIM 66-A missile. According to Rasor (1985) this missile “cost $149,766 in 1970 dollars when it was purchased sole-source ... from General Dynamics. GD reduced its price to $61,039 per missile - a price reduction of 59 percent after the Navy opened up the contract for competition” (p. 129). Admittedly this reduction could have been General Dynamics’ way of simply “buying-in” to the contract. However, the “should-cost” pricing mentioned above would be a mechanism for controlling such possible abuses.

Educating the public might be a viable option too. By educating them regarding the terrible effects of “pork barrel spending”, they might
be persuaded to look at the long-term problems of supporting politicians who vote for unnecessary weapons systems. If this could be accomplished, it is possible the constituents would not vote for these types of politicians, which would be a start in correcting the many problems within the procurement process.

An additional reform that must be implemented is closing the revolving door. Too often employees of the government, after retirement, go to work for a contractor that s/he was previously overseeing. This is totally unacceptable. As noted earlier, the process of the revolving door normally begins two or three years before the government employee retires. Therefore, as a sort of probation period, the contractor tests the loyalty of the employee while the corporation commits illegal acts. Consequently, for several years a corporation is able to defraud the government of millions of dollars, and is able to pass off faulty weapons as quality products. In an attempt to end this process, a law should be passed which prevents any government employee from working for a contractor that s/he, at any time, supervised. This would not only eliminate most of the corruption that accompanies the revolving door, but would also eliminate the perception of any illegal activities. Consequently, the elimination of this perception would substantially increase morale of government workers.
Warranties against defects in weapons purchases should be considered. As Dina Rasor (1985) explains, "Warranties on cars, toasters, and televisions protect us from defective products. Shouldn't our soldiers expect the same protection from weapons that they are expected to trust their lives to?" (p. 125). By ensuring quality products are delivered by contractors, much of the waste within the procurement system would be eliminated. Warranties would ensure contractors deliver a better product, thereby reducing the many expensive fixes to weapons failures.

According to former Deputy Secretary of Defense, Paul Thayer, "military contractors increase prices 10% to 30% to cover products that have to be remade because they are made improperly the first time." (Rasor, 1985, p. 127). A "warranty law" could, therefore, reduce costs by ten to thirty percent.

Changing the standard of proof from "beyond a reasonable doubt" to "a preponderance of the evidence" when prosecuting state-corporate crimes would improve the procurement process significantly. This would lessen the strictness of the law, therefore making it somewhat easier for agents of the law to prosecute their cases. As a justification for this improvement, it should be noted that because of the power and secrecy of the corporations a change such as this is necessary. Additionally, the safeguard of "beyond a reasonable doubt" was originally written so as to
protect ordinary powerless citizens from the abusive, overintrusive power of government. Therefore corporations, who are as powerful (if not more so) as the government, do not need to be afforded the strictness of this safeguard.

A simple improvement of the existing system would be to merely stick to the punishments that are levied. Repeatedly, General Dynamics had its suspensions lifted and had contracts returned which had previously been given to other contractors. By refusing to enforce its decisions, the government repeatedly sent a message to General Dynamics, and other corporations as well, that their actions were acceptable and that they need not worry about any significant penalty.

Another suggestion for improvement relates solely with punishment after conviction. As designed, this punishment system compares existing criminal punishments of “street crimes” to punishments designed for “suite crimes.” It’s my contention criminalistic corporations are derived from the top down. By this I mean that those who have the power within a corporation allow, perpetuate, facilitate, and even initiate criminal activities within their corporation. Therefore, as those with the power within a corporation are the only individuals able to prevent criminal activities, I contend illegal activities will persist until those in power realize their actions are not going to go unpunished, and the
corporation will directly suffer the consequences of their bad actions. This approach would, in my opinion, awaken the shareholders that if the corporation does not change its ways, it will no longer make a profit and may eventually go bankrupt.

With this in mind I offer a punishment system that reprimands the corporation financially, as well as individual decision makers by prosecuting each specific actor possible within a criminal court. The criminal prosecution would not differ from what is currently being accomplished, with the exception of the change to a preponderance of evidence as mentioned earlier. The major improvement is how punishments are levied. My basic premise is that for the severity of the offenses committed by a corporation, the severity of the punishment would increase too. This parallels the criminal law in that as the severity of an individual's crime increases, so too does his/her punishment. Therefore, I propose certain punishments be written into law for prosecutions of corporations as individual entities. The formula would be calculated by linking a particular transgression of a corporation to that of a crime within the criminal law, and subsequently the punishment would correlate too.

As an example, let's consider the crime of assault. If a person is convicted of simple assault s/he can generally be expected to serve up to
90 days in jail. Aggravated assault, which is one step up the ladder of severity, generally calls for a person, once convicted, to be incarcerated between 91 days to 2 years. And increasing in severity, felonious assault normally carries a sentence of between 1 and 5 years. I believe it could be advantageous to implement the same type of punishments to corporations, but by punishing them financially. However, to do this we have to construct a structured system of punishment for these corporations. This I have done by taking the percentage of one's lifespan that an individual loses when s/he is punished after committing a crime, and constructed a similar percentage of financial punishment that should be levied upon corporations that are convicted of illegal activities. By using the simple assault figures given above, I calculated that an individual loses (if serving the entire sentence) approximately 1.0 percent of his/her life while incarcerated (assuming the average life of an individual as 72 years). An individual who is convicted of aggravated assault would lose 1.03 percent of his/her life while incarcerated. While an individual convicted of felonious assault would lose 1.07 percent of his/her life while incarcerated. I contend that a corporation could also be punished similarly. After establishing which state-corporate crimes are going to be compared to which street crimes, we can then impose financial punishments upon corporations. Therefore, if convicted of giving gratuities to government
officials (and assuming giving gratuities could be compared to simple assault), a corporation would have to pay 1.0 percent of their gross worth. The fine that would have to be paid for a company that is worth 1 billion dollars, $10 million, would be rather significant. Likewise, if a corporation was convicted of murder it would be sentenced to death by revoking the corporation's license. This sentence would compare to an individual being sentenced to death if s/he murdered someone. Although this system seems rather harsh, I believe it would alleviate many bad acts by corporations because shareholders would not tolerate it if the top executive put their corporation at risk.

As a final suggestion for improvement, structural change at the broadest level may be necessary. The major agencies involved within the Military-Industrial-Complex (Congress, the DOD, and General Dynamics) are so deeply institutionalized into the very fabric of American society it is virtually impossible to initiate any credible change without initiating a full-scale overhaul of the current system.

The procurement process is undoubtedly in need of a major restructuring. Filled with corruption, however, it seems unlikely business as usual can be changed. Only when our society is educated about the detrimental effects of this enormously inefficient process may we as a nation possibly see this system improve to one of prosperity.
Although the policy recommendations outlined above are idealistic, systematic changes such as these would be necessary before any real improvements could be realized.

Limitations of This Thesis

Although this thesis clearly outlined corporate wrongdoing within the defense industry, there were limitations. Specifically, I was unable to compare this case study with a similar case, thereby showing how two separate phenomena are related. However, the fraudulent activities of General Dynamics was overwhelmingly documented, I was able to generally describe how crimes in the defense industry are conducted.

Another limitation of this case study is the incredible power and secrecy of the actors within the military industrial complex. None of the actors voluntarily offer incriminating evidence about themselves or their activities. Therefore, we must rely on "whistle-blowers" and independent journalistic and scholarly works for information about this type of behavior.

Future Research Considerations

Clearly more research on this topic is warranted. The vast amount of taxpayer money being wasted each year due to state-corporate crime in
the defense industry is reason enough to continue research in this area. Future research should focus on this waste and ways to eliminate it. Furthermore, future research should more closely scrutinize how well newly-manufactured weapons systems work. Finally, future research should more closely address how the military industrial complex may be spreading to other countries throughout the world. As the U.S. economy becomes increasing dependent upon global partnerships, it is reasonable to believe that U.S. corporations operating outside the United States may develop partnerships with state and military entities from other countries. This would make the definition of the military industrial complex more inclusive so as to include Departments of Defense and state involvement from other countries.
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