



Defense Primer: Department of Defense Contractors

Throughout its history, the Department of Defense (DOD) has relied on contractors to support a wide range of military operations. A *defense contractor*, as defined by the Code of Federal Regulations, is “any individual, firm, corporation, partnership, association, or other legal non-Federal entity that enters into a contract directly with the DOD to furnish services, supplies, or construction” (see 32 C.F.R. 158.3, “Definitions”). Within the defense policy community, the term *contractor* is commonly used in two different contexts. The word can describe the private companies with which DOD contracts to provide goods and services. It can also describe individuals hired by DOD—usually through private companies, which are also considered contractors in the previous context—to perform specific tasks. The term “contractor” does not refer to military servicemembers, civilian DOD career employees, or civilian political appointees.

Operations over the past 30 years have highlighted the central role that contractors play in supporting U.S. troops, both in terms of the number of contractors and the type of work being performed. During recent U.S. military operations in Iraq and Afghanistan, contractors frequently accounted for 50% or more of the total DOD presence in-country.

Contractors as Companies

In Fiscal Year (FY) 2020, DOD obligated more money on federal contracts (\$420 billion in current dollars) than all other government agencies combined. While DOD contracts with many companies for all kinds of goods and services, its contract activities are dominated by five companies: Lockheed Martin, Boeing, Raytheon, General Dynamics, and Northrop Grumman (see **Table 1**). In FY2019, these companies together received 31% of all of DOD’s contract obligations for the year. These five companies are often referred to as the *primes*, signifying their frequent role as prime contractors who in turn subcontract to other companies.

Table 1. Five Largest DOD Contractors by Obligations, FY2019

in billions of current dollars

Company	Contracted Dollars
Lockheed Martin Corporation	\$47.1
The Boeing Company	\$26.3
General Dynamics Corporation	\$17.0
Raytheon Company	\$16.0
Northrop Grumman Corporation	\$14.2

Source: beta.SAM.gov Top 100 Contractors Report, FY2019.

Note: Fifty percent of the Bell-Boeing Joint Project Office is attributed to the Boeing Company.

In FY2020, 51% of total DOD contract obligations were for services, 41% for goods, and 8% for research and development (R&D).

Contractors as Individuals

Individual DOD contractors fulfill a wide variety of organizational roles and functions from logistics and transportation to intelligence analysis and private security.

Why Does DOD Use Individual Contractors?

Following the conclusion of the Cold War, the U.S. military—in line with a government-wide trend—embraced outsourcing, increasing reliance on contractors instead of using military servicemembers or government civilians to perform certain tasks.

Some analysts have highlighted numerous benefits of using contractors. These benefits include freeing up uniformed personnel to focus on military specific activities; providing supplemental expertise in specialized fields, such as linguistics or weapon systems maintenance; and providing a surge capability to quickly deliver critical support functions tailored to specific military needs. Because a contractor can be hired when a particular need arises and released when his or her services are no longer needed, some have argued that meeting immediate personnel needs through surges in the use of contractors by the federal government is more cost-effective on a long-term basis. Just as the effective use of contractors can augment military capabilities, the ineffective use of contractors can prevent troops from receiving what they need, when they need it, and can lead to wasteful spending. Contractors can also compromise the credibility and effectiveness of the U.S. military and undermine operations, as many analysts believe occurred during operations in Iraq and Afghanistan.

How Many Contractors Does DOD Employ?

DOD’s Inventory of Contracted Services (ICS, see 10 U.S.C. §2330a(c)) report is a required annual report to Congress that provides information on certain categories of contractor hiring by individual DOD components (e.g., the military departments and defense agencies).

Under 10 U.S.C. §2330a, DOD is required to collect and report data for each purchase of services in excess of \$3 million within four service acquisition portfolio groups: logistics management services, equipment related services, knowledge-based services, and electronics and communications services. In the report, DOD must also provide the number of contractor employees associated with these services. The report does not include a total number of individual contractors—instead, it provides an estimate of contractor full-time equivalents (FTEs) for direct labor, a measure referring to the estimated numbers of man-hours contracted. According to the FY2017 ICS report, the most recent available report with FTE estimates,

DOD contracted about 464,500 FTEs within the four defined service portfolios during that year. Of that number, the Department of the Army contracted about 37%, the Department of the Air Force about 28%, and the Department of the Navy about 22%.

Table 2. Estimated FY2017 Contractor FTEs, by DOD Component

DOD Component	Reported FTEs
Department of the Army	172,303
Department of the Air Force	131,132
Department of the Navy	102,181
U.S. Special Operations Command	9,656
Missile Defense Agency	7,609
Defense Logistics Agency	6,829
Defense Information Systems Agency	6,470
Office of the Secretary of Defense	5,964
Defense Health Affairs	5,696
U.S. Strategic Command	2,888
All other reported FTEs	13,728

Source: DOD FY2017 Inventory of Contracted Services.

Notes: Some components (such as DIA) provided classified contractor FTEs; these estimates are not included in summary totals. Other components (such as DCMA) did not report FTE estimates.

Value of ICS Report

In establishing the statutory requirement for the ICS report, Congress sought in part to gain more oversight of certain types of service contracts—particularly staff augmentation services and services that are closely associated with inherently governmental functions—and the associated labor. However, some observers have questioned the value of the ICS report in facilitating congressional oversight. A 2017 RAND study described the ICS report as including data that are “unprocessed, retrospective, and can largely be found elsewhere,” potentially limiting the utility of the report to Congress and DOD. Other experts, such as the Section 809 Advisory Panel, have recommended repealing or modifying the underlying statutory requirement to obtain more relevant data and analysis suitable for use by policymakers in Congress and DOD.

In its FY2018 ICS Report to Congress, DOD noted that it was transitioning its system for gathering data on contractor FTEs from a DOD-unique system to the federal government-wide System for Award Management (SAM). DOD indicated that it would not be able to provide FTE estimates during this process, but anticipated the transition would be complete in time to submit the FY2020 ICS report.

What Role Do Contractors Play In Overseas DOD Operations?

Overseas contingency operations in recent decades have highlighted the role that contractors play in supporting the U.S. military, both in terms of the number of contractor personnel and the type of work being performed by these

individuals. Since 2008, U.S. Central Command (CENTCOM) has published quarterly contractor census reports, which provide aggregated data – including elements such as mission category and nationality – on contractors employed through DOD-funded contracts who are physically located within the CENTCOM area of responsibility.

During the fourth quarter of FY2020, CENTCOM reported approximately 44,000 contractor personnel working for DOD within its area of responsibility, which includes Afghanistan, Syria, and Iraq. A reported 22,562 contractor personnel were located in Afghanistan, while a reported 4,826 contractor personnel were located in Iraq and Syria.

In Afghanistan as of the fourth quarter of FY2020, about 35% of DOD’s 22,562 reported individual contractors were U.S. citizens. Approximately 43% were third-country nationals and roughly 22% were local/host-country nationals. In Iraq and Syria, about 53% of the reported 4,826 DOD contractors were U.S. citizens, with 34% third-country nationals and 13% local/host-country nationals.

In Iraq and Afghanistan, armed and unarmed private security contractors have been employed to provide services such as protecting fixed locations; guarding traveling convoys; providing security escorts; and training police and military personnel. The number of private security contractor employees working for DOD in Iraq and Afghanistan has fluctuated significantly over time, depending on various factors. As of the fourth quarter of FY2020, DOD reported 4,164 private security contractors in Afghanistan, with 1,813 categorized as armed private security contractors. DOD reported 96 private security contractor personnel in Iraq and Syria during the same period, none of whom were identified as armed private security contractors.

<p style="text-align: center;">Relevant Statutes</p> <p>10 U.S.C. Part IV: Service, Supply, and Procurement.</p>
<p style="text-align: center;">CRS Products</p> <p>CRS Report R43074, <i>Department of Defense’s Use of Contractors to Support Military Operations: Background, Analysis, and Issues for Congress.</i></p> <p>CRS Report R44116, <i>Department of Defense Contractor and Troop Levels in Afghanistan and Iraq: 2007-2018.</i></p>
<p style="text-align: center;">Other Resources</p> <p>Defense Pricing and Contracting, <i>Inventory of Services Contracts</i>, https://go.usa.gov/xd43S.</p> <p>Office of the Assistant Secretary of Defense for Sustainment, <i>CENTCOM Quarterly Contractor Census Reports</i>, https://go.usa.gov/xd43h.</p>

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