

# DECONSTRUCTING OUR IMPLICIT NOTIONS OF EFFICIENCY

2011 DoD Acquisition Insight Conference: Dayton, Ohio  
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# Disclaimer

*The thoughts expressed in this presentation are those of the author and do not necessarily reflect the official policy or position of the United States Government, Department of Defense, Department of the Air Force, Headquarters Air Force Materiel Command, Directorate of Strategic Plans, Programs and Analyses, or the Studies and Analyses Division. No endorsement intended.*

# Purpose

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*To provide a thought-provoking, hopefully entertaining, and in some way useful assessment of the philosophical foundations of our pursuit for greater efficiency as revealed through deconstruction*

# **WARNING**

**THE INFORMATION CONTAINED IN THIS BRIEFING  
MAY CAUSE SEVERE DISCOMFORT.  
COMMON SYMPTOMS INCLUDE HEADACHE &  
IN EXTREME CASES NAUSEA.**

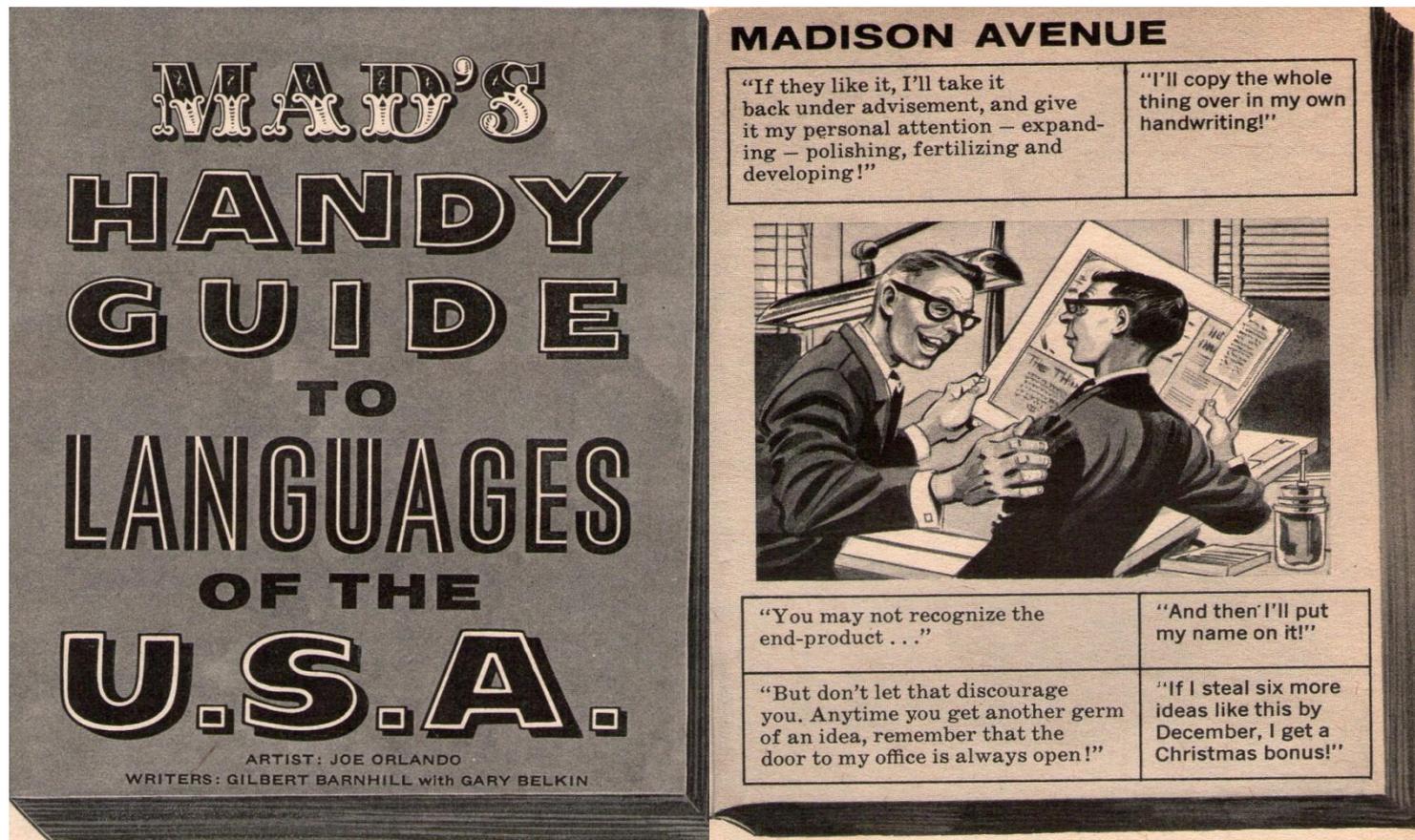
**CONSUME AT YOUR OWN RISK!**



# Some background



# Language and negotiating meaning



**What is said and what is meant are not necessarily the same thing -  
The downside is misunderstanding, the upside is humor**

# This Project

- Deconstruct recent defense efficiency memoranda
- Looking at two notions in particular
  - Efficiency
  - Competition
- Using economics as the analytical lens (other lenses would likely produce different understandings)
- To reveal potential insights regarding the selected approach, and to
- Identify an alternative conceptualization of the problem

# Some Key Concepts

## □ Deconstruction

*“The movements of deconstruction do not destroy structures from the outside...the enterprise of deconstruction always in a certain way falls prey to its own work” (Derrida, 1997, p. 24)*

## □ Intertextuality – the interlacing of different texts

## □ “Sous rature” (under erasure)

*“In examining familiar things we come to such unfamiliar conclusions that our very language is twisted and bent even as it guides us. Writing ‘under erasure’ is the mark of this contortion” (Spivak, 1997, p. xiv).*

# Primary Sources



ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

## THE UNDER SECRETARY OF DEFENSE

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WASHINGTON, DC 20301-3010

JUN 28 2010

### MEMORANDUM FOR ACQUISITION PROFESSIONALS

SUBJECT: Better Buying Power: Mandate for Restoring Affordability and Productivity in Defense Spending



ACQUISITION,  
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SEP 14 2010

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### MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS DIRECTORS OF THE DEFENSE AGENCIES

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# Philosophical Interlude

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“To avoid ‘going beyond,’ one risks returning to a point that falls short”

-Jacques Derrida

# Efficiency

An Examination of the Economic Value of our  
Output - Defense

# What is Efficiency?

- Economists define efficiency in the following way

$$\text{Efficiency} = \frac{\text{Economic Value of Output}}{\text{Economic Value of Input}}$$

- Market provides economic value of inputs
  - ▣ Labor Rates
  - ▣ Raw materials
- Market does not provide economic value of output for defense and many other government services
  - ▣ Defense is not “sold” to consumers
  - ▣ Government activity pursuing multiple valued outcomes

# Government ~~Efficiency~~ in the 1940's

## BUREAUCRACY

Ludwig von Mises

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*Bureaucracy*

bureau is in this capacity no longer a businessman but a bureaucrat. His objective can no longer be profit, but compliance with the rules and regulations. As head of a bureau he may have the power to alter some minor rules and some matters of internal procedure. But the setting of the bureau's activities is determined by rules and regulations which are beyond his reach.

It is a widespread illusion that the efficiency of government bureaus could be improved by management engineers and their methods of scientific management. However, such plans stem from a radical misconstruction of the objectives of civil government.

Like any kind of engineering, management engineering too is conditioned by the availability of a method of calculation. Such a method exists in profit-seeking business. Here the profit-and-loss statement is supreme. The problem of bureaucratic management is precisely the absence of such a method of calculation.

In the field of profit-seeking enterprise the objective of the management engineer's activities is clearly determined by the primacy of the profit motive. His task is to reduce costs without impairing the market value of the result or to reduce costs more than the ensuing reduction of the market value of the result or to raise the market value of the result more than the required rise in costs. But in the field of government the result has no price on a market. It can neither be bought nor sold.

Let us consider three examples.

# Government ~~Efficiency~~ in the 1960's

## INSIDE BUREAUCRACY

ANTHONY DOWNS

### *How Lack of Output Markets Affects Bureaus<sup>7</sup>*

Unlike most other large organizations, bureaus are economically one-faced rather than two-faced. They face input markets where they buy the scarce resources they need to produce their outputs. But they face no

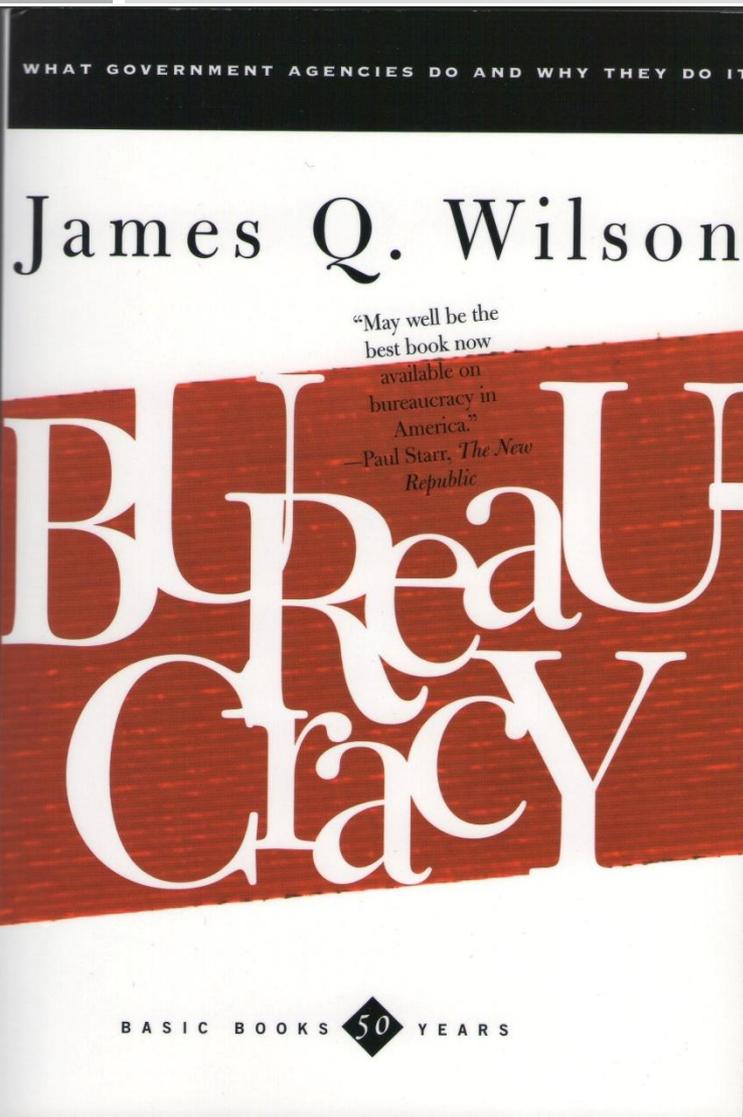
economic markets whatever on the output side.<sup>8</sup> Therefore, they have no direct way of evaluating their outputs in relation to the costs of the inputs used to make them. This inability is of profound importance in all aspects of bureaucratic behavior.

Most of the bureaus upon which we will focus our analysis are government agencies, and very few government services are sold in markets. Thus, there is no direct relationship between the services a bureau provides and the income it receives for providing them. Instead, it either receives an allocation of resources from the central budgeting agency of a larger institution of which it is a part (as does a public university), or it obtains resources from nonmarket donors (as does a private university). If the bureau is part of a government, that government collects taxes from citizens who may benefit, not benefit, or be adversely affected by the bureau's activities. There is no mechanism for matching the taxes paid by each citizen with the utility he receives from government activity, whether we consider total or marginal taxes and utility.<sup>9</sup>

Thus, for all practical purposes, there is a complete separation of each bureau's income from its expenditures. As a result, the bureau's ability to obtain income in a market cannot serve as an objective guide to the desirability of extending, maintaining, or contracting the level of expenditures it undertakes. Nor can it aid the bureau in determining how to use the resources it controls, or in appraising the performance of individual bureaucrats. In short, the major yardsticks for decisionmaking used by private nonbureaucratic firms are completely unavailable to men who run bureaus.

This does not mean that no tests of efficiency whatsoever can be de-

# Government ~~Efficiency~~ in the 1980's



## Problems

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with constraints than the attainment of goals.

When we denounce bureaucracy for being inefficient we are saying something that is half true. Efficiency is a ratio of valued resources used to valued outputs produced. The smaller that ratio the more efficient the production. If the valued output is a rebuilt skating rink, then whatever process uses the fewest dollars or the least time to produce a satisfactory rink is the most efficient process. By this test Trump was more efficient than the Parks and Recreation Department.

But that is too narrow a view of the matter. The economic definition

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CHANGE

we want government to observe. A government that is slow to build rinks but is honest and accountable in its actions and properly responsive to worthy constituencies may be a very efficient government, *if we measure efficiency in the large by taking into account all of the valued outputs.*

Calling a government agency efficient when it is slow, cumbersome, and costly may seem perverse. But that is only because we lack any objective way for deciding how much money or time should be devoted to maintaining honest behavior, producing a fair allocation of benefits, and generating popular support as well as to achieving the main goal of the project. If we could measure these things, and if we agreed as to their value, then we would be in a position to judge the true efficiency of a government agency and decide when it is taking too much time or spending too much money achieving all that we expect of it. But we cannot measure these things nor do we agree about their relative importance, and so government always will appear to be inefficient compared to organizations that have fewer goals.

But simply, the only way to decide what

# Government ~~Efficiency~~ in the 2000's

WHY BUSINESS THINKING  
IS NOT THE ANSWER

## GOOD TO GREAT AND THE SOCIAL SECTORS

A Monograph to Accompany  
Good to Great

JIM COLLINS



GOOD TO GREAT AND THE SOCIAL SECTORS 5

conclusion would be absurd. Stanford won the National Association of Collegiate Directors of Athletics Cup for best overall performance for 10 consecutive years, beating out all other major schools, while delivering athlete graduation rates above 80%.<sup>4</sup> To say, “Stanford is a less great program because it has a higher salary structure than some other schools” would miss the main point that Stanford Athletics delivered exceptional performance, defined by the bottom-line *outputs* of athletic and academic achievement.

The confusion between inputs and outputs stems from one of the primary differences between business and the social sectors. In business, money is both an input (a resource for achieving greatness) and an output (a measure of greatness). In the social sectors, money is *only* an input, and not a measure of greatness.

# Economic Value of Defense Output

$$\textit{Defense Efficiency} = \frac{?}{\$}$$

**In a strict economic sense, the concept of efficiency does not apply to defense because the economic value of the output (i.e., the numerator of our efficiency ratio) is indeterminable**

# What is our output?



## Defense:

- Freedom
- Security

# How do we tend to measure it?

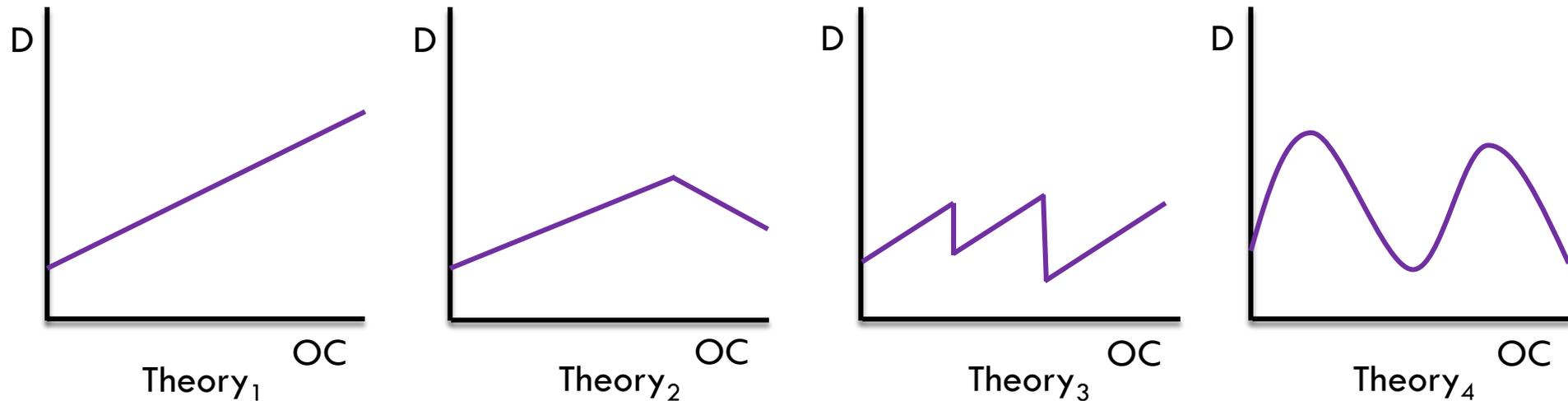


## Offensive Capability:

- ❑ Bombs on Target
- ❑ Weapon Availability

# Some Theorized Relationships Between Offensive Capability and Defense

$$D = f(OC)$$



**It is worth considering that defense is not solely determined by what we do (e.g., increase offensive capability), but also by what potential adversaries do in response to what we do**

# A Map of How this Works (or Doesn't)



## Defense:

(What we actually would measure if we could)



## Offense:

(What we tend to measure as a proxy for defense)



## Artifacts:

(What we actually organizationally produce to acquire the systems which provide offensive capabilities which lead to national defense)

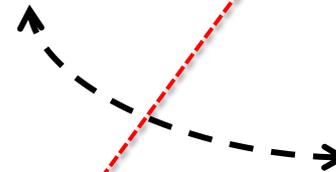


## Inputs:

(The cost of resources consumed as we organizationally produce the artifacts necessary to acquire the systems which provide offensive capabilities which lead to national defense)



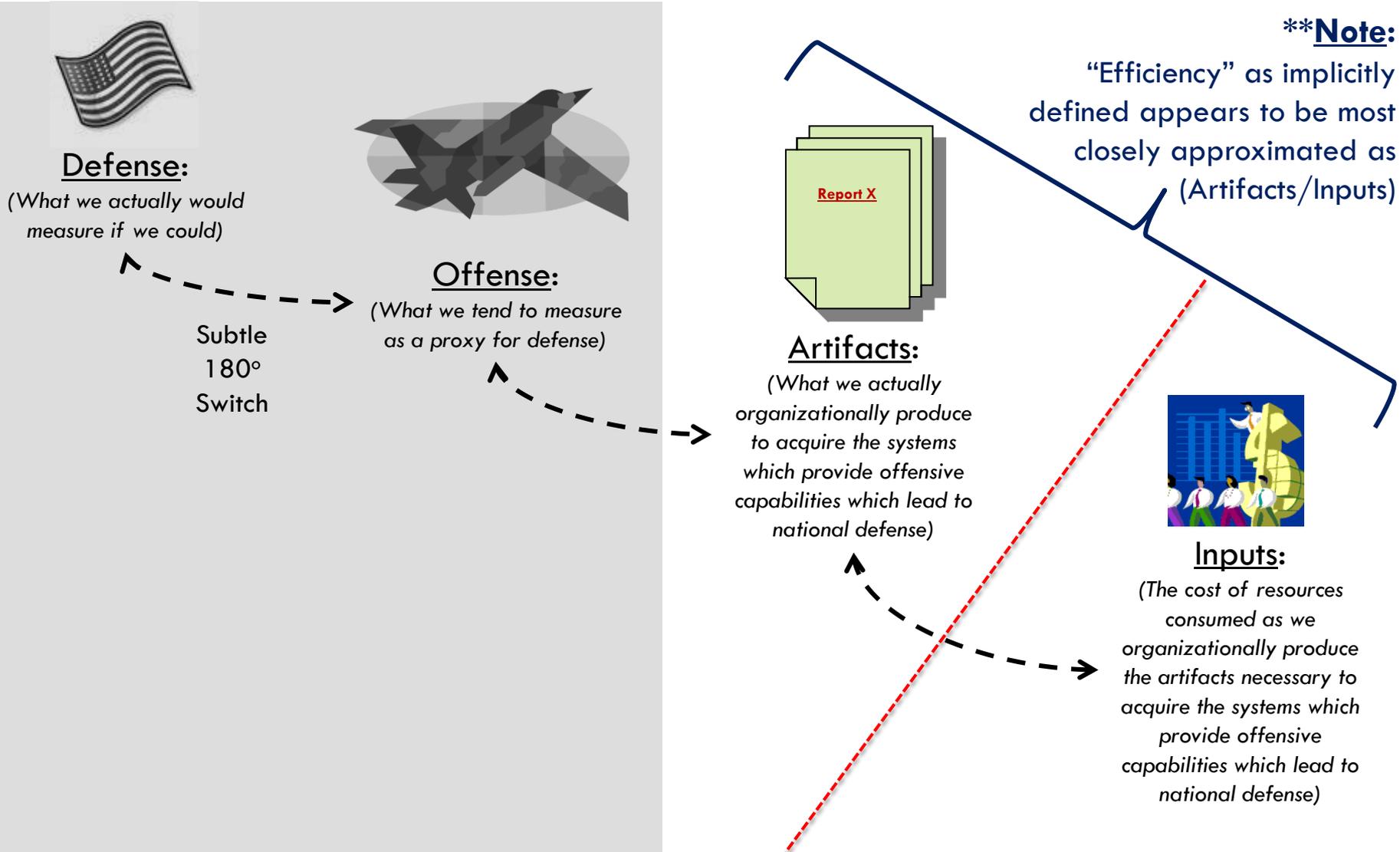
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## **\*\*Note:**

These potential numerators are all highly abstract, and are categorically different from the type of information provided by the inputs

# A Map of How this Works (or Doesn't)



# Any focus on artifacts?



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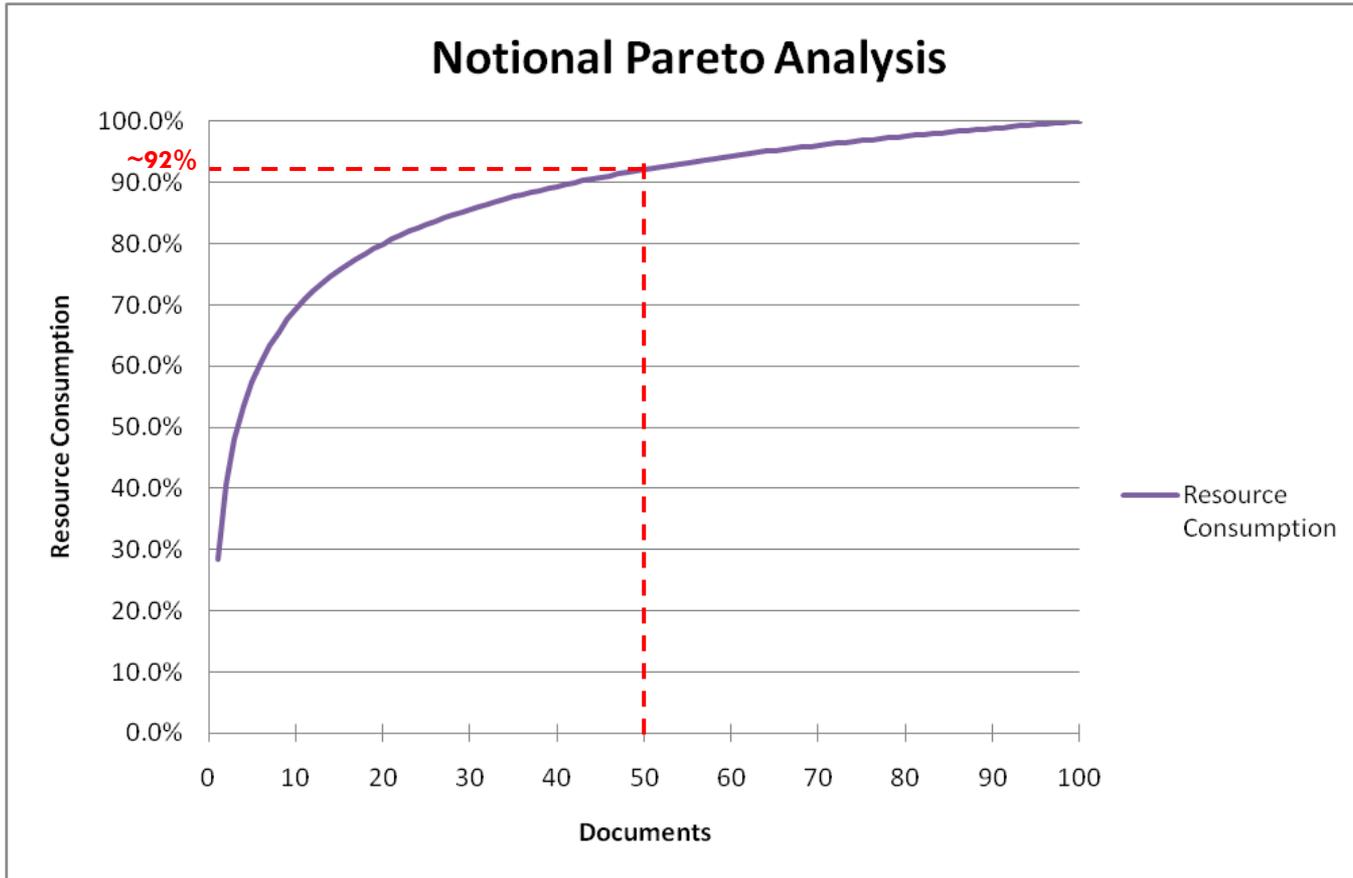
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## **REDUCE NON-PRODUCTIVE PROCESSES AND BUREAUCRACY**

You are to conduct a bottom-up review of all internally-generated reporting requirements. You are to assess the value of the reports with a goal to eliminate at least 50 percent of the reports and substantially shorten the ones remaining. In addition, effective immediately, you are to assign reasonable page count caps (based upon the nature of the information requested) when you assign lead responsibility for report production.

# And if the artifact list is Pareto-like...



Based on:

$$P(x) = \frac{\alpha b^\alpha}{x^{\alpha+1}}, \quad x \geq b$$

For:

$$\alpha = 0.215$$

$$\beta = 1$$

$$n = 100$$

**Even if we successfully reduce the number of reports by 50%, it could conceivably produce a meager ~8% reduction in inputs**

# So what might be said?

- We probably can't know if something is more efficient
  - Economic value of defense is indeterminable
  - Relationship between offensive capability and defense is unclear
  - Link between work (artifacts) and offensive capability is complex
  - Any list of work will likely be
    - Incomplete
    - Product-focused
  - Long-term impact of work no longer being accomplished is difficult to know (but critically important)
- We can talk authoritatively (but not definitively) about resource consumption

**From “This is more efficient” to “We are consuming fewer resources”**

# Why might this distinction matter?

- How we talk about things both reflects and constrains how we think about things (Bois, 1975; Hayakawa, 1964; Korzybski, 2000)
  - If we make the claim of “efficiency,” it is reasonable to assume things are going to be “ok” (after all we are merely consuming less resources and accomplishing the same amount of work - or maybe even more)
  - If we state we are consuming fewer resources (i.e., we are taking some sort of budgetary cut), it is reasonable to expect negative consequences could emerge as a result

**Which perspective is more conducive for proactive responses?**

# Competition

An Analysis of the Supply and Demand Sides of  
the Defense Industrial Market

# Overview of the Market



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Second, we in the Department cannot succeed at this task alone. We need the input and involvement of industry, and I will be actively seeking their support and ideas. We do not have an arsenal system in the United States: the Department does not make most of our weapons or provide many non-governmental services essential to warfighting – these are provided by private industry. Our industry partners are patriots as well as businessmen. This initiative should contribute to the continuing vitality and financial viability of the defense industry in the era ahead by aligning the direction and incentives of the Department and industry. It is intended to enhance and incentivize efficiency and total factor productivity. Most of the rest of the economy exhibits productivity growth, meaning that every year the buyer gets more for the same amount of money. So it should be in the defense economy. Increased productivity is good for both industry and government. So also is avoiding budget turbulence and getting more programs into stable production.

# Some Initial Agreement

## The Weapons Acquisition Process: An Economic Analysis

MERTON J. PECK

*Associate Professor of Business Administration*

FREDERIC M. SCHERER

*Research Associate*

☞ This manuscript has been reviewed by the Department of Defense to insure that classified military security information is not compromised. Review of this material does not imply Department of Defense endorsement of factual accuracy or opinion. ☞

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Boston · 1962

## CHAPTER 1

### Introduction

A DISTINCTIVE FEATURE of American weapons development and production is the use of private firms to carry forward most of the effort. This volume is primarily concerned with the government-business relationships within which these activities take place. Our title reflects our emphasis. *Weapons Acquisition* is defined to include the conception, development, and production of technically advanced weapons for ultimate use by the armed forces. *Process* emphasizes the flow of decisions and activities during weapons programs, including the actions, reactions, and interactions of government agencies and defense contractors. *Economic Analysis* indicates our concern with how these activities and relationships affect the quality, time, cost, and value outcomes of weapons programs.

# Why is competition important?



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## PROMOTE REAL COMPETITION

Real competition is the single most powerful tool available to the Department to drive productivity. Real competition is to be distinguished from a series of directed buys or other contrived two-source situations which do not harness the full energy of competition. Competition is not always available, but evidence suggests that the government is not availing itself of all possible competitive situations.

# One Potential Research Vector



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*This is an interesting claim.  
What does it mean?*



Remove obstacles to competition. In recent years, the Department has achieved the highest rates of competition in its history. Having said that, the fact is that a significant fraction of those competitive procurements have involved what is termed “ineffective competition,” since only one offer to a solicitation was received even when publicized under full and open competition. This occurs in about \$55 billion of Department contracts annually. One step the Department can take is to mitigate this loss of savings from the absence of competition. A common practice has been to conclude that either a bid or proposal submitted by a single offeror in response to a full and open competition met the standard for adequate price competition because the bid or proposal was submitted with the expectation of competition. As a result, no certified cost or pricing data was requested, no cost or price analysis was undertaken, and often, no negotiations were conducted with that single offeror. *Henceforth I expect contracting officers to conduct negotiations with all single bid offerors and that the basis of that negotiation shall be cost or price analysis, as the case may be, using non-certified data.*

# Is it Pure Competition?

## MICROECONOMIC THEORY

by

C. E. FERGUSON  
Professor of Economics  
Duke University



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HOMWOOD, ILLINOIS

## Chapter 9

## THEORY OF PRICING IN PERFECTLY COMPETITIVE MARKETS

(Ch. 9) *Theory of Pricing in Perfectly Competitive Markets* · 193

### 9.2.a—Small Size, Large Numbers

First, perfect competition requires every economic agent in the market to be so small, relative to the market as a whole, that it cannot exert a perceptible influence on price. From the standpoint of buyers this means that each consumer taken individually must be so unimportant he cannot obtain special considerations from the sellers. Perhaps the most familiar special consideration is the rebate, especially in the area of transportation services. But there can be many others, such as special credit terms to large buyers, or rendering free additional services. None of these can prevail if the market is perfectly competitive.

From the seller's standpoint perfect competition requires each

# Is it Monopolistic Competition?

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by

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Professor of Economics

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## Chapter 11

## THEORY OF PRICING UNDER MONOPOLISTIC COMPETITION

### 11.3.b—Summary of Assumptions

All of Chamberlin's specializing assumptions have been discussed or inferred; yet it may be well to recount them now. First, a large number of firms is producing a differentiated product. Each commodity within the product group is a fairly close substitute for every other commodity; and such a large number of sellers is in the product group that each expects his competitive maneuvering to go unnoticed by his rivals. Second, for the present, price is the variable entrepreneurs manipulate in an effort to increase profit. Finally, as Chamberlin puts it, there is the ". . . heroic assumption that both demand and cost curves for all the 'products' are uniform throughout the group. . . . [This only requires] that consumers' preferences be evenly distributed among the different varieties, and that differences between them [the products] be not such as to give rise to differences in cost."<sup>11</sup>

The last assumption merits further comment. In perfect competi-

# Is it an Oligopoly (Supply Side)?

## MICROECONOMIC THEORY

by

C. E. FERGUSON

Professor of Economics

Duke University



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Chapter  
12

THEORIES OF PRICING IN  
OLIGOPOLY MARKETS

competition in the popular sense.

Oligopoly is said to exist when more than one seller is in the market, but when the number is not so large as to render negligible the contribution of each. If only two sellers are in the market, the special case of duopoly exists. For simplicity the duopoly market organization will be discussed rather than the more general oligopoly; since the fundamental problem is the same, generality is not sacrificed.

# Is it Monopsony (Demand Side)?

## MICROECONOMIC THEORY

by

C. E. FERGUSON

Professor of Economics

Duke University



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## Chapter 14

## THEORY OF PRICE AND EMPLOYMENT IN IMPERFECTLY COMPETITIVE MARKETS

### 14.3 MONOPSONY: MONOPOLY IN THE INPUT MARKET

The analysis of pricing and employment of productive services has so far rested upon the assumption that each producer (buyer of the service in question) cannot affect the market price of the service by changes in his utilization of it. This assumption obviously does not hold in all situations. There are sometimes only a few, and in the limit one, purchasers of a productive service. Where there is a single buyer of an input a *monopsony* is said to exist; if there are several buyers *oligopsony* is the proper designation.

A wide variety of categories can be classified. Broadly speaking

# More Specifically on Defense

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The Organization of Defense

## Defense Procurement

As we noted in Chapter 7, the Defense Department purchases a large fraction of its goods from private contractors. Most of these purchases are not made in a conventional competitive market, in which there are many suppliers and many buyers. There is one large buyer—the United States government. There are a few (and often only a few) potential suppliers: for aircraft, for instance, Lockheed, Boeing, and McDonnell-Douglas compete against each other.

Second Edition

## ECONOMICS OF THE PUBLIC SECTOR

Joseph E. Stiglitz

\*Note: Nobel prize in economics (2001)

# From a More Mainstream Source

New York Times  
February 12, 2011  
Pg. B1

## Talking Business

### **From Pentagon, A Buy Rating On Contractors**

By Joe Nocera

If you were an investor in the military industry, would you find this useful information? You bet — this is the stuff that can move markets. Although Mr. Carter made several references to “market forces,” the only market for the military industry is the government, which spends some \$400 billion a year on weapons systems and other purchases. In economic terms, the Pentagon is a “monopsony,” a single buyer with life-or-death power over its vendors. If the Pentagon wants the military industry to be healthy and profitable, it can pretty much ensure that outcome.

# How might oligopolistic firms compete?

## The Weapons Acquisition Process: Economic Incentives

FREDERIC M. SCHERER  
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*Competitive Incentives*

As a program progresses toward the testing of prototypes, the possibilities for innovation become increasingly limited while other behavioral effects of competition assume more and more significance. During this period competition between close substitutes usually generates strong incentives for quality maximization (subject to the constraint of the broad technical approach taken) and lead time minimization, but not for development cost reduction. Indeed, the pressures of competition may cause firms to seek technical sophistication and perfection not worth their cost. Counterpressures are needed to encourage the cost-consciousness conducive to optimal tradeoff decisions and efficiency. As development progresses the rate of spending increases, and so the resource cost of supporting competing efforts climbs rapidly. At the same time, in technically ambitious programs major uncertainties may not be eliminated until operational prototypes are tested. In such cases the statistical benefits of competition could outweigh their cost. The best-motivated contractor performance on an inferior technical approach will not yield optimal results. These and other factors such as morale and talent allocation effects must be evaluated in determining how much competition is appropriate.

# Thoughts on Market Structure (1962)

## The Weapons Acquisition Process: An Economic Analysis

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*The Nonmarket Character of the Process*

57

## THE IMPOSSIBILITY OF A MARKET SYSTEM FOR WEAPONS ACQUISITION

It is not only that a market system does not now exist in the weapons acquisition process. We can state the proposition more strongly. A market system in its entirety can never exist for the acquisition of weapons. To economists schooled in the virtues of

# Thoughts on Market Structure (1962)

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*The Execution of Weapons Programs*

## The Weapons Acquisition Process: An Economic Analysis

MERTON J. PECK

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The notion of a market system is one such inapplicable set of concepts. Still much of the public discussion of weapons acquisition problems proceeds as if the terms "competition," "price," "buyer," and "seller" had the meanings they do in a market system. Consider, however, the differences listed in Chapter 3. Payments to contractors are on the basis of cost incurred rather than competitive prices, and yet competitive prices are an essential feature of a market system. In weapons acquisition the buyer exercises control over sellers through the auditing of costs and other activities that involve the government in the internal management of its contractors. Yet another essential element of a market system is that buyers exert their control only by distributing their patronage among competing sellers. Similarly, while in a market system the initiative for product decisions rests upon sellers, the government rather than its contractors decides what weapons are to be created through its program decisions. Program decisions are in turn implemented by the scores of optimization decisions described in Chapter 17, some made by government agencies, some shared between the government and its contractors, and still others made by contractors. At this more detailed level the decision-making roles of government and contractors become intertwined in a manner foreign to a market system's rigid distinction between buyers and sellers.

Thus weapons acquisition is characterized by a form of economic organization quite different from the market system found elsewhere in the U.S. economy. The shift of weapons making from

# Thoughts on Market Structure (1964)

## The Weapons Acquisition Process: Economic Incentives

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*After-the-Fact Evaluation: A New Incentive Approach*

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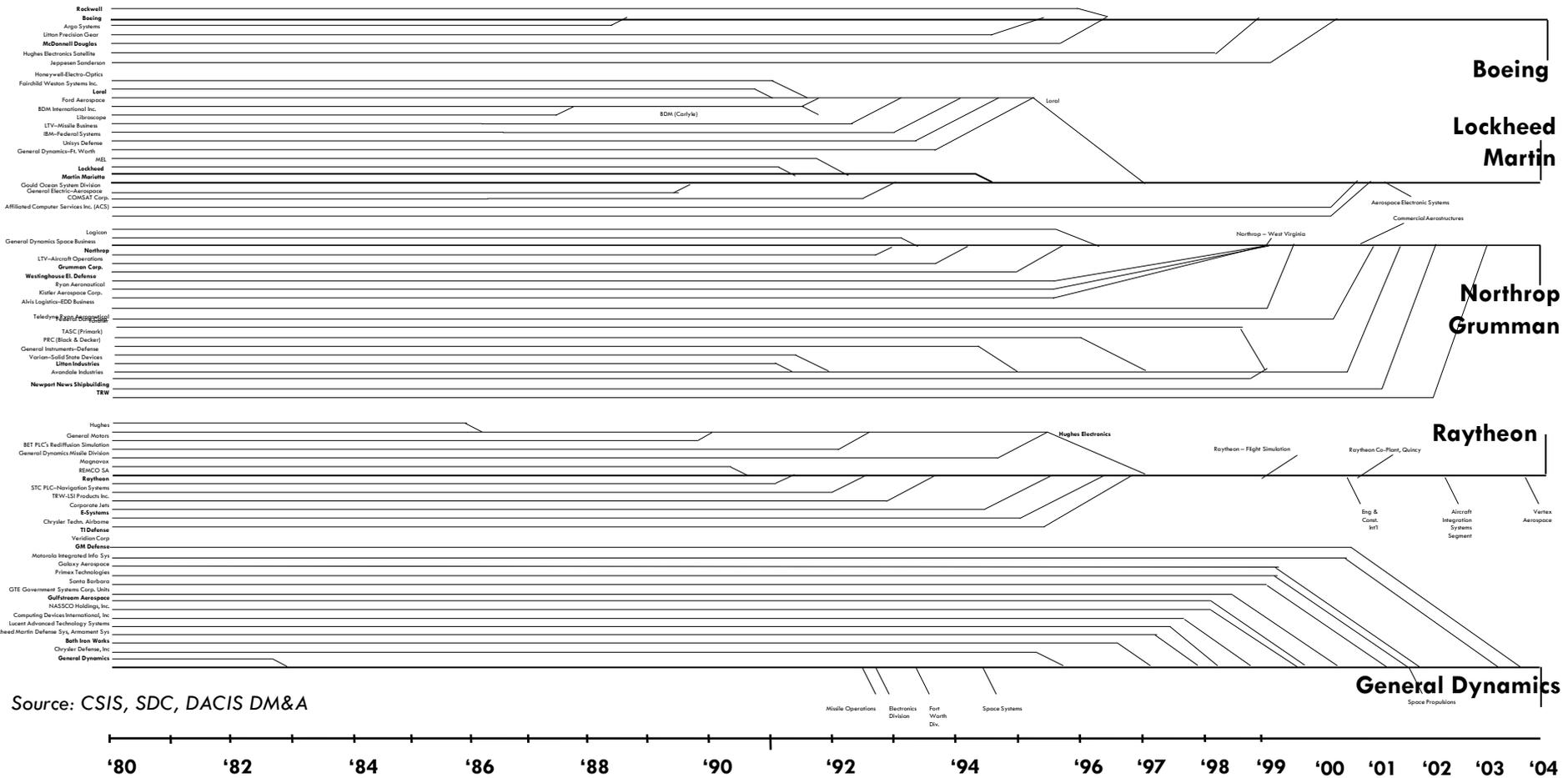
*Socialism and Unilateralism*

...in-house conduct of military research and development in government laboratories and arsenals.<sup>42</sup> These alternatives clearly represent longer steps along the road to socialism than a system of industry planning which attempts to harness for efficient government service the self-interest of private firms by relating sales and profits to past performance. Private enterprise, in the strict sense, has not been employed for at least two decades to develop and produce advanced weapon systems, nor is it likely that true private enterprise is possible at all in the nonmarket environment of weapons acquisition. A substantial degree of government intervention — socialism, if you like — is inescapable. The crucial question is whether that socialism will be the socialism of direct controls or the socialism of consciously administered incentives.

Industry representatives have roundly condemned the unilateral

<sup>42</sup> The issue of incentives vs. controls will be discussed further in...

# Defense Industry Consolidation



Source: CSIS, SDC, DACIS DM&A

From Chart 4 in the Hon. Sue Payton's "Achieving defense acquisition excellence: Challenges for the 21<sup>st</sup> century," 20 APR 2010.

# Concern for Profitability



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JUN 28 2010

MEMORANDUM FOR ACQUISITION PROFESSIONALS

SUBJECT: Better Buying Power: Mandate for Restoring Affordability and Productivity in Defense Spending

Second, we in the Department cannot succeed at this task alone. We need the input and involvement of industry, and I will be actively seeking their support and ideas. We do not have an arsenal system in the United States: the Department does not make most of our weapons or provide many non-governmental services essential to warfighting – these are provided by private industry. Our industry partners are patriots as well as businessmen. This initiative should contribute to the continuing vitality and financial viability of the defense industry in the era ahead by aligning the direction and incentives of the Department and industry. It is intended to enhance and incentivize efficiency and total factor productivity. Most of the rest of the economy exhibits productivity growth, meaning that every year the buyer gets more for the same amount of money. So it should be in the defense economy. Increased productivity is good for both industry and government. So also is avoiding budget turbulence and getting more programs into stable production.

# Was the message received/distorted?

New York Times  
February 12, 2011  
Pg. B1

## Talking Business

### **From Pentagon, A Buy Rating On Contractors**

By Joe Nocera

Their main message, to put it bluntly, is that even in an era of tighter budgets, the Pentagon is going to make sure the military industry remains profitable. “Taxpayers and shareholders are aligned,” Mr. Carter intoned on Wednesday. Then he laid out a series of reforms that he said would both increase competition and maintain, as he put it, “profitability over the long term” — a phrase he repeated for emphasis.

# Comparative analysis of evidence

## Competitive Market:

- Rhetorical claims

## Oligopolistic Market (Supply) and Monopsonistic Market (Demand):

- Economic definitions
- Historical consolidations
- Concern for profitability

# Comparative analysis of evidence

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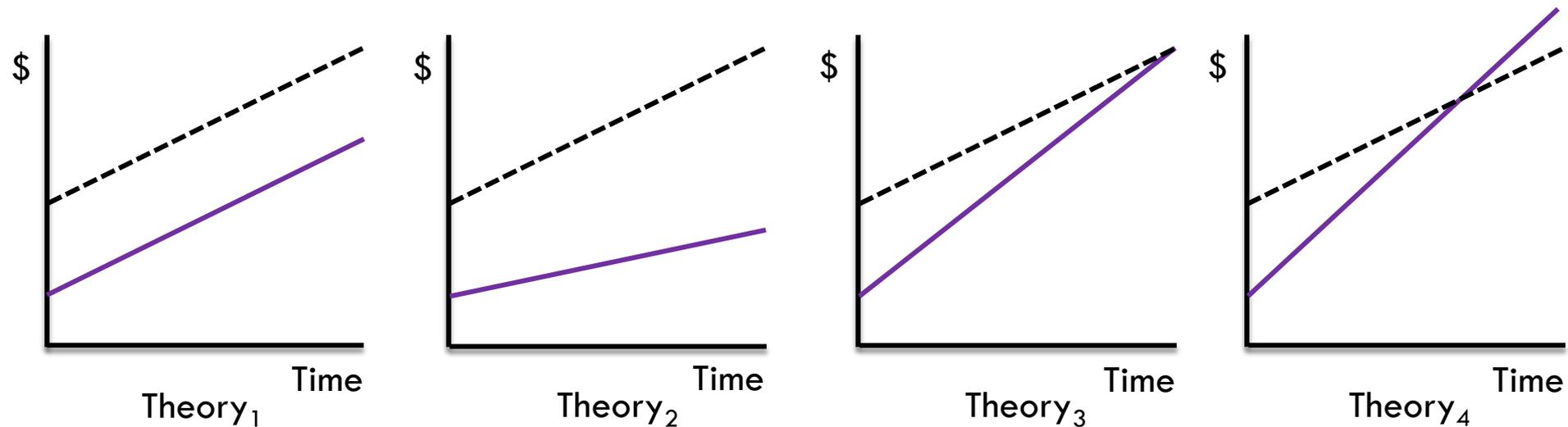
- Economic definitions
- Historical consolidations
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**While competition tends to produce the best product at the lowest price in a competitive market, there is no such expectation when a monopsony (e.g., U.S. government) purchases from a firm selected from multiple bidders operating in an oligopolistic market (e.g., defense industry)!**

# Increasing the number of firms submitting bids for a source selection $\neq$ Competition

Contractor A without “competition”

Contractor A with “competition”



**It is no difficult task to incentivize firms to lower the initial dollar value of the bid. It is unclear what type of programmatic outcomes will ultimately come from such an initial position.**

# The Logical Fallacy of Division



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**Important switch from a positive statement (“is”) to a normative statement (“should”):**

Why **“should”** an oligopolistic/monopsonistic market structure produce the productivity growth of “most of the rest of the economy” (i.e., a competitive market)?

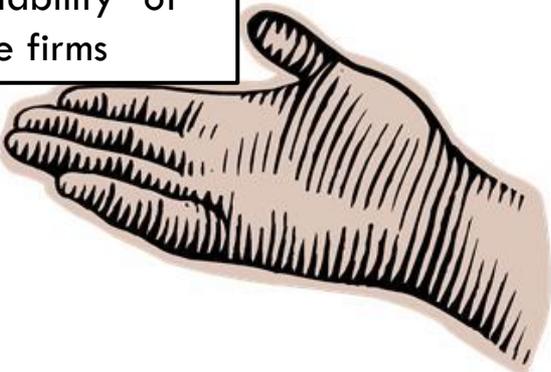
More importantly, even if it does, why **“should”** the firm pass these benefits from productivity growth to the consumer (i.e., the government)?

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# A Difficult Balancing Act



On the one hand the aim is to improve competition, increase productivity, and gain efficiencies



On the other hand the aim is to enhance the “financial viability” of defense firms

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## Talking Business

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Now can you see why the Pentagon has taken to talking up the industry to the investment community? With one side of its mouth, the Pentagon is saying it is going to be more tough-minded in its approach to military contractors than ever before. But with the other side of its mouth, it is telling investors not to worry: the profits will be there, no matter what. Partly, this is political posturing; the Pentagon worries that the contractors and their allies in Congress will push back if the Defense Department doesn't emphasize industry profit. Still, the Pentagon's two-sided stance is not a terribly tenable position and requires much papering over. Hence Mr. Carter's road show.

# Thoughts Regarding ~~Competition~~

- Possible to increase number of firms submitting bids for a particular source selection
  - However, that approach does not necessarily mean there is increased competition within the defense industry (i.e., the proposed solution does not fundamentally alter the structure of the market)
  
- Focus might be better applied to determining how one could increase pressure on oligopolistic firms to transfer more of the benefits from its shareholders to the government
  - However, this works against our goal to keep these defense-industry firms profitable

# Supplement

An indication of future research

# Derrida's “*sous rature*” (under erasure)



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How does the inclusion of the phrase “patriots as well as” alter the implications and inferences of this sentence?

-Placing this phrase “*sous rature*” is not meant to imply these “partners” are not patriots (one’s patriotism typically goes without saying – hence the inclusion is odd).

-Does including the phrase imply these “partners” do not warrant the type of skepticism one typically gives businessmen under “*caveat emptor*”?

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# A Conclusion of Sorts

Some summary thoughts...

# Summary thoughts

- It is a clumsy proposition to apply the economic concept of efficiency to defense acquisition
  - ▣ If we say “efficiency” when in actuality we are taking a “funding cut” we might not be looking at the implications associated with what is no longer being accomplished
  - ▣ If it is not economic efficiency, what type of efficiency is being employed here in this particular context?
- It is unlikely a monopsony acquiring from a firm in an oligopolistic market will generate the type of efficiencies associated with either a competitive or monopolistically competitive market
  - ▣ We have some power as a monopsony buyer, but exercising this power works against our competing goal of ensuring defense-industry firms are profitable

# Conclusion

- Important work remains to be accomplished
- Accomplishing this work will be made all the more difficult due to increased fiscal constraints
- Any term selected is potentially ambiguous and overburdened with “institutional baggage”
- The terms “efficiency” and “competition” appear to be especially maladapted to our current task
- While certainly not perfect, the terms “funding cut” and “multiple bidders” might more clearly capture what we know (without presupposing the benefits we desire)

# Contact Information

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