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Issues in Defense Economics

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LOS ANGELES

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Since the present volume is a record of conference proceedings, it has been exempted from the rules governing submission of manuscripts to, and critical review by, the Board of Directors of the National Bureau. It has, however, been reviewed and accepted for publication by the Director of Research.

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Foreword

ROLAND N. McKEAN

UNIVERSITY OF CALIFORNIA, LOS ANGELES

Defense is one of the most important industries in the world. Its cost is enormous—well over $50 billion worth of resources per year in the United States alone. And its output is vital; for the product can be anything from secure and fairly decent societies to virtual annihilation. Almost everyone, from dedicated pacifists to advocates of preventive war, would agree that defense choices are momentous ones. As a consequence, governments are making greater efforts than before to analyze defense options carefully and seek preferred alternatives. Economics has a role to play in this activity, and as might be expected, the demand for economists who are interested in analyzing defense policies has increased.

In view of such developments, it seemed worthwhile to hold a Universities–National Bureau Conference on the economics of defense. It was hoped that this would stimulate interest in these issues—interest among economists with a wide range of viewpoints and experience, not merely among existing specialists in defense economics. It was believed that the conference might contribute to this end in several ways—for example, by helping to delineate this field of applied economics, by emphasizing the importance, the "respectability," and the fruitfulness of work on these issues, and by exchanging ideas about defense choices and research pertaining to them.

The general plan of the conference was to orient the sessions not around specific defense choices but around topics that are of interest in the field of economics. The three broad topics that emerged were "applying economics to defense problems," "strategy and resource allocation," and "institutional structures and defense spending." This orientation may help stress the fact that the issues involved are significant from the standpoint of economic theory as well as that of defense studies. Needless to say, these issues are also pertinent from the standpoint of public finance, for the economics of defense expenditures is one part, and a major one, of the economics of public spending.

The results of the conference—the implications of the papers and comments—are impossible to summarize. Each listener or reader would probably see different themes and points as the major ones suggested by the discussions. For me there was one result in particular: the sessions reinforced my belief that while economic analysis can help to order one's thoughts and can provide valuable information, it can almost never point to a choice which all would accept as the correct one. For in a world without certainty, we can legitimately disagree about the physical, sociological, and psychological consequences of alternative courses of action, and in a world without a uniquely correct preference function, we can legitimately disagree about the values to be attached to those consequences. In the discussions of both interactions and institutional arrangements, it appears that there are few tested hypotheses; each of us, in deciding what action he prefers, must to a considerable extent make personal judgments about the consequences of alternative policies. In the discussions of collective "goods and bads," impacts on the probabilities of various kinds of war, and, in general, of the outputs of defense, there is no reason to expect full agreement on the value tags to be attached to these products.

At the same time, the papers bring out once more that economic analysis is the right way to look at problems of choice and that it can frequently provide pieces of information which are well worth their cost in the same way that research assists consumers in making their selections. Trying to weigh the costs and gains from alternative actions is, in fact, the way to decide what action one prefers and to see if agreement on a preferred policy is possible. Similarly, neither economic analysis nor chemical analysis can indicate whether Individual A should spend more time reading, sleeping, or making friends. Yet trying to weigh the costs and gains from such actions is the right way for him to decide. It will not guarantee a decision that someone else would prefer him to make, nor a decision that by hindsight he will feel was correct. As the way for him to look at the problem, however, it is better than the alternatives.

The Program Planning Committee for the conference included the following persons: Evsey Domar, Massachusetts Institute of Technology; Alain C. Enthoven, Department of Defense; Jack Hirshleifer, University of California, Los Angeles; Roland N. McKean (Chairman), University of California, Los Angeles; G. Warren Nutter, University of Virginia and National Bureau of Economic Research; Jerome Rothenberg, Massachusetts Institute of Technology; Thomas C. Schelling, Harvard University; James R. Schlesinger, The RAND Corporation. In almost all decisions regarding the conference there appeared to be substantial agreement among the committee members. As usual, however, this presumably reflected to a considerable extent the low reward and high cost to each individual of stubbornly dissenting. Moreover, some decisions were made by the chairman (or by fate) without polling the members, and others were made when particular members were absent. Hence, as often occurs in committees, it may be that *no one* is responsible for whatever planning errors developed.

Thanks are due to several persons other than committee members, particularly Dr. Robert P. Shay, secretary of the Universities–National Bureau Committee. A special debt is owed to William H. Meckling, dean of the College of Business Administration, University of Rochester. He served as a discussant at the conference without seeing his remarks in print, since he did not write up his comments for inclusion in the volume. Thanks are also due to Gerald R. Paul for final editing and processing of the manuscript, and H. Irving Forman for drawing the charts.