THE DEFENSE BUDGET

A Fable

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Once upon a time, there was a tiny island monarchy known as "Islandia." It was ruled by Queen HoHum II. Her domain was so small that its Ministry of Defense consisted of one Admiral of the Navy, one General of the Army, one General of the Air Force and, of course, a Minister of Defense.

Originally, there had been just the Army and the Navy, but an enterprising young Army Colonel had convinced the Minister of Defense that the concepts of land, sea and air warfare warranted a separate Air Force. The young Colonel was now an older General of the Air Force. The Admiral, unbeknownst to the others, had secret plans for a Marine Corps but, so far, he had been unable to find the necessary few good men to get it started. The General of the Army, still recovering from the Queen's decision to dispense with involuntary induction, was wrestling with recruiting and retention problems.

Islandia's defense budget, like the island itself, was very small. In fact, there was just enough money to buy one ship or one tank or one plane – assuming, of course, that the United States kept its promise to sell them at below cost. The Queen, anxious to get the most for her money – and not wanting to make the decision herself – summoned the Minister of Defense, Donna Dumsfeld, to Castle Hill, and charged her with deciding how to spend the tiny budget. Because the Queen had been educated abroad, in the MIT Saloon School of Management, she impressed upon Minister Dumsfeld the importance of doing a thorough cost-benefit analysis. The Minister, educated mostly in public workshops, was herself a sophisticated student of the management sciences. Indeed, she had been one of the famous "wise kids" under the previous Minister of Defense.

Recognizing an opportunity to apply the well-known Black-Mutton Managerial Grid, the Minister of Defense put on her best 5x5 manager's hat, informed the admiral and the generals of the Queen's requirement and directed them to submit their recommendations and accompanying analyses within the hour.

The admiral and the generals returned to military headquarters, known as "The Hexagon, to task subordinates with doing their homework for them. Twenty-four hours later, with the aid of trained guide-dogs, they made their way out of the Hexagon and back up to Castle Hill to make their reports.

The Admiral, always the first to speak, was unusually eloquent. He began by pointing out the obvious: Islandia was an *island* monarchy surrounded by oceans. He emphasized the historical significance of showing the flag, the strategic importance of controlling the sea lanes, the ever-present danger of enemy submarines (some equipped with ICBMs), and the national goodwill generated by overnight liberty is foreign ports (even if it also created an unfavorable trade balance). Finally, glancing down at the heavy gold braid on his sleeves, he reminded the Minister of a fundamental, irrefutable fact: "Madam Minister," said the Admiral, "if we don't have a ship, we don't have a Navy."

The General of the Army, next to speak, had been prepped very well by his loyal lieutenants. He had numerous charts, graphs and terrain maps, all in multiple colors and mounted on polished aluminum easels. He had wanted a PowerPoint presentation, but his lieutenants had convinced him the Minister hated them. Using a laser pen borrowed from a high-ranking civil servant, the general referred to his visual aids as he discussed the relative merits of ships, planes and tanks in terms of costs, kill-ratios, life-expectancies, vulnerabilities and gas mileage. Noting that his figures were completely unbiased because they had been prepared (at considerable cost) by a private consulting firm – Booze-Ellen – the general triumphantly displayed the bottom line: Tanks were 50 percent more cost-effective than ships and 75 percent more so than planes. Indeed, he noted, the earlier decision to establish a separate air force might benefit from reexamination. Smiling, he reminded the Minister of a second, equally fundamental, equally irrefutable fact: "Madam Minister," said the general, "all wars eventually boil down to seizing and controlling land masses and the people on them. To that end, we need tanks!"

The General of the Air Force, last to speak, rose from his chair, cleared his throat, looked the Minister of Defense squarely in the eye and said, "Minister Dumsfeld, I cannot quarrel with the arguments presented by my comrades in arms; I have neither the eloquence of the admiral nor the figures presented by the general. However, I would remind you of four things: (1) her majesty gets violently seasick, (2) she suffers from claustrophobia, (3) she loves flying and (4) she is scheduled to announce a new Prime Minister in a few days.

The Minister notified the Queen that her recommendation was to buy a plane. The Queen was overjoyed and appointed Donna Dumsfeld as the new Prime Minister, citing in part Dumsfeld's hard-nosed approach to matters of defense. The General of the Air Force was named Grand Marshal of the Armed Forces, reporting directly to the new Prime Minister. The admiral and the army general were passed over twice and retired on "passover" pensions, whereupon they formed a Retired Officers' Association and began badgering parliament about a bigger defense budget.

There are three morals to this fable, maybe more if you use your imagination:

1. If you don't understand the difference between the way academics say that resource allocation decisions should be made and the way they're actually made, you're liable to wind up in the Retired Officers' Association long before your time.

2. Money is a medium of exchange. Its value derives from the value of the things for which it can be exchanged. In short, the value of money is a function of what it buys. One of the things it cannot buy is an objective basis for what are essentially subjective decisions.

3. Costs are almost always measured in dollars and cents. Benefits, however, are frequently measured using other yardsticks. The critical task in cost-benefit analysis is determining the value of what you are buying, not simply what it costs. This is especially true when you are spending someone else's money.

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