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DEFENCE ACQUISITION AND PROCUREMENT

How (Not) to Buy Weapons

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Abstract: The acquisition and procurement of major weapons systems is fraught with difficulties. They tend to be delivered late, over budget and unable to meet requirements. This Element provides an economic analysis of why this happens. Market structure, demand by the military and supply by the arms firms, shapes the conduct of the agents and generates the poor performance observed. The military are trying to counter an evolving threat, subject to a budget constraint, high R&D costs and new technologies. The interaction between a government made up of warring tribes and arms firms with considerable market and political power is further complicated by a set of what economists call 'principal-agent' problems, which are examined. While the poor performance has prompted many countries to propose reforms, the difficulty of the task and the institutional incentives faced by the actors mean that the reforms rarely solve the problem.

Keywords: acquisition, procurement, weapons systems, principal-agent, defence economics.

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