

What is the Lexington Institute? It is a policy institute (i.e., “think tank”) focused on issues such as national security, education, taxation, and immigration. In its own words—

The Lexington Institute believes in limiting the role of the federal government to those functions explicitly stated or implicitly defined by the Constitution. The Institute therefore actively opposes the unnecessary intrusion of the federal government into the commerce and culture of the nation, and strives to find nongovernmental, market-based solutions to public-policy challenges. We believe a dynamic private sector is the greatest engine for social progress and economic prosperity.

Here is a link to the Lexington Institute’s [home page](#). In addition to scholarly works, it also publishes the “Early Warning” blog. One of the blog posts, by Dr. Loren Thompson, caught our eye with the interesting title: “Weapons Spending: Much of the Logic Behind Acquisition Reform is Flawed.” See the entire post [here](#). We agree—and have posted similar thoughts in the past. (See [this article](#) or [this one](#)).

We encourage visitors to read the linked article in its entirety. To summarize, though, Dr. Thompson makes the following four points.

1. Competition does not improve performance, but it does lower efficiency. The Government doesn’t need to hold competitions to drive best value acquisitions or to incentivize contractor performance. There are plenty of contracting tools in the Government’s toolkit to motivate contractors to operate efficiently. As Dr. Thompson says, “The notion that normal rules of competition can be made to work in a system of monopsonybuyers and oligopolistic sellers is nonsensical, because the market is too distorted to function normally. If there are to be two suppliers, then the sole customer must pay for two sets of everything -- design teams, production facilities,

spare parts, etc.”

2. Use of Fixed-Price contract types does not control contractor cost growth, but it does encourage contractors to bid high prices. Dr. Thompson asks, “Is it really so hard to fashion a cost-plus approach to weapons development where the contractor is rewarded for holding down costs rather than encouraged to bid high from day one?”

3. Contractors are encouraged to bid low, and cost realism is never rewarded. Because the top-tier of defense contractors is largely interchangeable, the distinguishing characteristic between bids is often price. Dr. Thompson asks, “What source-selection authority is going to pick the system that costs a billion dollars more when all of the competing solutions meet performance requirements?” He cites the recent [award](#) of the multi-billion dollar FMTV award to Oshkosh as a prime example of this rule, where he asserts that Oshkosh’s bid was “30% below what the incumbent is currently charging for identical trucks,” and Oshkosh’s profit projection was based on receipt of “financial aid from state and local governments.”

4. Adding more acquisition, audit, and program management professionals to DoD's ranks won't solve the myriad problems with the Pentagon's acquisition process, but it will compound the problem. We are all familiar with the lack of Government resources in this area, and the current reliance on contractors to augment short-staffed contracting offices.

But Dr. Thompson notes that those new heads will take additional funds—not just to cover the costs of salary and benefits, but also to cover the costs of training, equipping, housing and supporting them. As Dr. Thompson notes, “When you add up all these costs, the long-term burden of taking on 20,000 new acquisition professionals will be over \$80 billion -- which just happens to be the projected cost of buying a replacement for the Trident ballistic-missile sub.”

Written by Administrator
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