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TAX EFFICIENCY AND QUALITY/QUANTITY
TRADE-OFFS IN DEFENSE
PROCUREMENT*

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Abstract

In the defense policy literature, it is widely believed that there is a pronounced bias towards the procurement of a less than optimal number of excessively sophisticated weapons. In this paper, we consider the possibility that this perceived bias is the result of the timing and informational structure of defense procurement decisions, and the interrela

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Security at Tel Aviv University, and two anonymous referees for their comments and insights.

Keywords: Defense procurement Weapon quality Tax smoothing

JEL Code: H57

Notes

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¹A number of observers, including the authors of this paper, regard the AICVAI/AIMVAL results with great skepticism. All engagements were in daylight and good weather, negating the F-15s superior night/adverse weather capabilities. Ground radars guided the aircraft to each other, negating the value of the F-15s superior radar. Furthermore, all engagements were near USAF bases, eliminating the F-15s advantage in range. In short, the F-15 was unable to demonstrate its qualitative superiority because the structure of the trials forbade it from doing so.

²See Hildebrandt ([1999](#)) for an excellent discussion of military production functions and how they differ from utility functions.

³Relaxation of this assumption in no ways alters the model's results.

⁴Strictly speaking, in the context of the present analysis $E(c)$ is valid only for .

⁵Not only budget

category power do


not always salary of a

research, although in

reality, research

expenditure be masking

the fund



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⁶It may be argued that our results do not hold for LDCs since few of these countries design or manufacture their own weapons. This is not the case. Many LDCs actually do produce much of their own weaponry, including Brazil, China, Egypt, India, Iran, Israel, Russia, South Africa, South Korea, and Turkey.

⁷Following publication of Bohn ([1990](#)), a vibrant literature has developed regarding the use of government debt management as a tool in facilitating tax smoothing.

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