DEFENSE AND SECURITY ECONOMICS

Teacher: Jean-Michel OUDOT
Academic year 2017/2018: Paris School of International Affairs – Fall Semester

BIOGRAPHICAL INFORMATION

Jean-Michel Oudot holds a PhD in Economics (2007), with a specialization in defense procurement. Winner of the defense economics award from the French defense Minister (2008), he has been working for four years in the French defense procurement agency (DGA, as an economic analyst) and nine years in the financial directorate of the French department of defense as chief economist. Since May 2017, J-M. Oudot acts as the economic expert of the Joint Chief of Staff in the department of defense. During his career, he had the opportunity to expertize many operations and domains in an effective and operational manner.

Along with his professional activities, Mr. Oudot has been teaching for 8 years at Paris I and II Universities, and 9 years at Sciences Po. In 2013, he has been appointed to the scientific council of the High Council for Strategic Education and Research (CSFRS). J-M. Oudot is also a member of the Chair specialized in the economics of public private partnerships (IAE Paris I).

He has been writing many articles and books dedicated to defense economics, as detailed in his personal webpage: http://chaire-eppp.org/jean-michel-oudot/

COURSE OUTLINE

Session 1: Military expenditures, impacts on growth and development

Required readings:

- Dunne J.P. & R.P. Smith (1984), “The economic consequences of reduced UK military expenditure”, Cambridge Journal of Economics, 8, pp. 297-310

Potential readings:

- Trish K. And Meenakshi R. (2003), “An empirical study of the spin-off effects of military spending”, Defence & Peace Economics, 14(1), pp.1-17
- Whitten Guy D. & Williams Laron K. (2011), “Buttery Guns and Welfare Hawks: The Politics of Defense Spending in Advanced Industrial Democracies”, American Journal of Political Science, 55(1), pp.117-134

- Gold D. (1997), “Evaluating the Trade-Off Between Military Spending and Investment in the United States”, Defence and Peace Economics, 8(3), pp. 251-266
- Dunne J.P., Smith R.P. & Willenbockel D. (2005), “Models of Military Expenditure and Growth: a Critical Review”, Defence and Peace Economics, 16(6), pp. 449-460
- Benoit E. (1978), “Growth and Defense in Developing Countries”, Economic Development and Cultural Change 26(2), pp. 271-280

Session 2: The role of R&D Defense and security public organization

Required readings (select a few sections):

- Lichtenberg F. (1995), “Economics of Defense R&D”, Handbook of Defense Economics, volume 1, pp. 431-457
- The Quadriennal Defense Review (USA)
- The Strategic Defence and Security Review (UK)

Potential readings:

- Livre Blanc sur la Défense et la Sécurité Nationale (FRA)
- Sapolsky H., Gholz E. and Talmadge C. (2009), US Defense politics: The origins of security policy, Routledge, New-York

Session 3: Characteristics of the defense industry and changes in the industrial organization

Required readings:

- Hartley K. (2007), “The Arms Industry, Procurement and Industrial Policies”, Handbook of Defense Economics, volume 2, pp. 1139-1176
- Dunne J.P. (1995), “The Defense Industrial Base”, Handbook of Defense Economics, volume 1, pp. 399-430

Potential readings:

- Smith R. (2013), “The defense industry in an age of austerity”, The Economics of Peace and Security Journal, 8(1), 18-22
- Nayantara H. (2010), “Can industry consolidation lead to greater efficiencies? Evidence from the US defense industry”, Business Economics, 45(3)

- Moura S. & Oudot J-M. (2016) “Performances of the defense industrial base in France: the role of small and medium enterprises”, Defence & Peace Economics, forthcoming

Session 4: Regulation of the defense industry

Required readings:

- Gansler J.S. (2007), “US defense industrial policy”, Security Challenges, 3(2), 17 pages

Potential readings:

- Léveque F. (1998), Économie de la réglementation, Repères, La découverte, Paris
- Lavallee L. (2003), “Globalizing the iron triangle: Policy-making within the US defense industrial sector”, Defense & Security Analysis, 19(2), p.149-164
- Dvir D. and Tishler A. (2000), “The changing role of the defense industry in Israel’ industrial and technological development”, Defense Analysis, 16(1), p.33-51
- Bower A.G. & Osband K. (1991), “When More Is Less: Defense Profit Policy in a Competitive Environment”, Rand Journal of Economics, n°22(1), p.107-119

Session 5: Theoretical frameworks in contracting and performance assessment

Required readings:

- Kirkpatrick D.L.I. (2004), “Trends in the Costs of Weapon Systems and the Consequences”, Defence and Peace Economics, vol. 15, n°3, p.259-273
- Williamson O.E. (1991), “Comparative Economic Organization: The Analysis of Discrete Structural Alternatives”, Administrative Science Quarterly, vol. 36, n°2, p.269-296
- Bajari P., McMillan R. & Tadelis S. (2009), “Auctions versus Negotiations in Procurement: An Empirical Analysis”, Journal of Law, Economics & Organization, vol. 25, n°2, p.372-399

Potential readings:

- Coase R.H. (2006), “The Conduct of Economics: The Example of Fisher Body and General Motors”, Journal of Economics and Management Strategy, n°15, p.255-278
- Bajari P. & Tadelis S. (2001), “Incentives versus Transaction Costs: A Theory of Procurement Contracts”, Rand Journal of Economics, vol. 32, n°3, p.387-407
- Williamson O.E. (1993), “Opportunism and Its Critics”, Managerial and Decision Economics, vol. 14, p.97-107. (1999), “Public and Private Bureaucracies: A Transaction Cost Economics Perspective”, Journal of Law, Economics and Organization, vol. 15, n°1, p.306-342

- Hart O.D., Schleifer A. & Vishny (1997), "The Proper Scope of Government: Theory and Application to Prisons", Quaterly Journal of Economics, 112, pp.1127-1161
- Laffont J-J. & Tirole J. (1993), A Theory of Incentives in Procurement and Regulation, The MIT Press, Cambridge, MA
- Saussier S. & Yvrande-Billon A. (2007), Economie des coûts de transaction, Repères, La Découverte, Paris

Session 6: Risks and contractual choices in defense procurement

Required readings:

- Oudot J-M. (2009); "Performances and Risks in the Defense Procurement Sector", Journal of Public Policy, 30(2), 201-218
- Kovacic W.E. (1991), "Commitment in Regulation: Defense Contracting and Extensions to Price Caps", Journal of Regulatory Economics, vol. 3, n°3, p.219-240
- Kapstein E.B. & Oudot J-M. (2009), "Reforming defense procurement: Lessons from France", Business & Politics, n°11(2), article 1

Potential readings:

- Kirkpatrick D.L.I. (1995), "The rising unit costs of defence equipment – the reasons and the results", Defence and Peace Economics, vol. 6, p. 263–288
- Rogerson W.P. (1990), "Quality vs Quantity in Military Procurement", American Economic Review, vol. 80(1), p.83-92 (1994), "Economic Incentives and the Defense Procurement Process", Journal of Economic Perspectives, vol. 8, n°4, p. 65-90
- Crocker K.J. & Reynolds K.J. (1993), "The Efficiency of Incomplete Contracts: An Empirical Analysis of Air Force Engine Procurement", Rand Journal of Economics, vol. 24, n°1, p.126-146
- Oudot J-M. & Menard C. (2010), « Opportunisme ou équité ? Le cas des contrats d'approvisionnement de défense », Revue Française d'Economie, vol. 24, n°3, p.195-226
- Adams G. (1981), The Politics of Defense Contracting – The Iron Triangle, Transaction Publishers, New-York
- Coats R., Karahan G and Tollison R.D. (2006), "Terrorism and pork-barrel spending", Public Choice, vol.128 (1-2), p. 275-287
- Fordham B. (2003), "The political and economic sources of inflation in the American Military Budget", Journal of Conflict Resolution, 47(5), pp.574-593
- Greer W.R. & Liao S.S. (1986), "An Analysis of Risk and Return in the Defense Market: Its Impact on Weapon System Competition", Management Science, vol. 32, n°10, p.1259-1273

- Mayer K. (1991), The Political Economy of Defense Contracting, Yale University Press, New Haven
- Peck M.J & Scherer F.M. (1962), The Weapons Acquisition Process: An Economic Analysis, Harvard University Press, Harvard
- Scherer F.M. (1964), The Weapons acquisition Process: Economic Incentives, Harvard University Graduate School of Business Administration, Boston
- Smirnoff J.P. & Hicks M.J. (2008), "The Impact of Economic Factors and Acquisition Reforms on the Cost of Defense Weapon Systems", Review of Financial Economics, vol. 17, p.3-13
- Hiller J.R. & Tollison R.D. (1978), "Incentive versus Cost-Plus Contracts in Defense Procurement", The Journal of Industrial Economics, vol. 26, n°3, p.239-248
- Kirat T., Bayon D. & Blanc H. (2003), Maîtriser les coûts des programmes d'armement. Une analyse comparative de la réglementation des marchés industriels d'armement en France, au Royaume-Uni et aux États-Unis, La documentation française, Paris
- Oudot J-M. (2007), « Choix du type de contrat et performance: le cas des marchés publics de défense », Economie Publique, vol. 21, n°2, p.157-182

Session 7: Nuclear deterrence and raw materials

Required readings:

- Hartley K. (2006), "The Economics of UK nuclear weapons policy", International Affairs, n°82(4), p.675-684

Potential readings:

- Allan P. & Schmidt C. (1994) Game theory and international relations: preferences, information and empirical evidence, Edward Elgar
- Long A. (2008) Deterrence. From Cold War to Long War. Rand Corporation

Session 8: Outsourcing policies and practices

Required readings:

- Tadelis S. (2007), "The Innovative Organization: Creating Value through Outsourcing", California Management Review, vol. 50, n°1, p.261-277

Potential readings:

- Bromund T.R. (2009), "Contracting Out in Defense: Lessons from the British Experience for the U.S. and Great Britain", Backgrounder, n°2278
- Hartley K., "The Economics of Military Outsourcing", Defence Studies, Volume 4, issue 2

Session 9: the Private Finance Initiative and Private Military Contractors

Required readings:

- Singer P.W. (2001), "Corporate Warriors. The Rise of the Privatized Military Industry and its Ramifications for International Security", International Security, vol. 26, n°3, p.186-220
- Brauer J. (1999), An Economic Perspective on Mercenaries, Military Companies, and the Privatisation of Force, Cambridge Review of International Affairs, vol. 13, n°1, p.130-146
- National Audit Office (NAO) and Government Accountability Office (GAO) reports : (key words: PFI, private support to operations, PMC, operational contract support)

Potential readings:

- De Nevers R. (2010), "The Effectiveness of Self-Regulation by the Private Military and Security Industry", Journal of Public Policy, vol. 30, n°2, p.219-240
- Singer P.W. (2003), Corporate Warriors: The Rise of the Privatized Military Industry, Cornell University Press, Ithaca
- Fredland J.E. (2004), "Outsourcing Military Force: A Transactions Cost Perspective on the Role of Military Companies", Defence & Peace Economics, vol. 15, n°3, p.205-219
- Markusen A.R. (2003), "The Case against Privatizing National Security", Governance, n°16(4), p.471-501
- Renou X. (2005), La privatisation de la violence. Mercenaires et sociétés militaires privées au service du marché, Agone, Paris
- Scahill J. (2007), Blackwater: The rise of the world's most powerful mercenary army
- Shearer D. (1998), "Outsourcing War", Foreign Policy, n°112, p.68-81
- STAIR (2014), Oxford's journal of global affairs, issue 9.2, "A re-examination of private military and security companies"

Session 10: Defense international trade

Required readings:

- Anderton Charles H. (1995), "Economics of Arms Trade", Handbook of Defense Economics, volume 1, pp.523-561

Potential readings:

- Brauer Jurgen (2007), "Arms Industries, Arms Trade and Developing Countries", Handbook of Defense Economics, volume 2, pp.973-1015

- Garcia-Alonso Maria & Levine Paul, (2007), “Arms Trade and Arms Races: A Strategic Analysis”, Handbook of Defense Economics, volume 2, pp.941-971

Session 11: International public goods and alliances; the European construction

Required readings:

- Sandler T. & Hartley K. (2001), “Economics of alliances: The lessons for collective action”, Journal of Economic Literature, vol. 39(3), p. 869-896

Potential readings:

- Cornes R. & Sandler T. (1996), The theory of externalities, public goods and club goods, 2nd edition, Cambridge University Press, Cambridge
- Coyne J.C. & Lucas D.S. (2016), “Economists Have No Defense: A Critical Review of National Defense in Economics Textbooks”, New Institutional Economics eJournal, Vol. 8, No. 12
- Olson M. & Zeckhauser R. (1966), “An economic theory of alliances”, Review of Economics and Statistics, vol. 48, n°3, p. 266-279
- Anderton C.H. (1995), “Economics of arms trade”, in Hartley K. and Sandler T. (eds) Handbook of Defense Economics Vol. I, Elsevier, Amsterdam, p. 523-561
- Oneal J.R. (1990), “The theory of collective action and burden sharing in NATO”, International Organization, vol. 44, n°3, p.379-402
- Arce D.G. & Sandler T. (2001), “Transnational public goods: strategies and institutions”, European Journal of Political Economy, Vol. 17, n°3, p. 493-516
- Buchanan J.M. (1965), “An economic theory of clubs”, Econometrica, vol.32, p. 1-14
- Dorussen H., Kirchner E. & Sperling J. (2009), "Sharing the Burden of Collective Security in the European Union", International Organization, vol. 63, n°4: 789-810
- Ferroni M. & Mody A. (2002), International Public Goods: Incentive, Measurement, and Financing, Kluwer Academic Publishers, Boston
- Heuninckx, B. (2008). A primer to collaborative defence procurement in Europe: Troubles, achievements and prospects. Public Procurement Law Review, Vol. 3, pp.123-145
- Samuelson P.A. (1954), “The pure theory of public expenditure”, Review of Economics and Statistics, 36(4)
- Shimizu H. & Sandler T. (1998), “Peacekeeping and burden sharing 1994-2000”, Journal of Peace Research, vol. 39(6) p. 651-668

Session 12: Economics of conflicts

Required readings:

- Braddon Derek L. & Hartley Keith (2010), Handbook on the Economics of Conflict, Elgar Original reference
- Garfinkel Michelle R. & Skaperdas Stergios (2007), “Economics of conflict: An Overview”, Handbook of Defense Economics, volume 2, pp.649-709
- Sambanis N. (2002), “A review of recent advances and future directions in the quantitative literature on civil war”, Defence and Peace Economics, volume 13(3), pp.215-243

Potential readings:

- Bilmes L. & J. Stiglitz (2006), “The Economic Costs of the Iraq War: An Appraisal Three Years After the Beginning of the Conflict”, NBER Working Paper, n°12054
- Stiglitz J. & Bilmes L. (2008); “The three trillon dollar war: the true cost of the Iraq conflict”, W.W. Norton