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Don't Run the Government Like a Business

By **Matthew Fay**

“Why can't the government be run more like a business?” It's a common refrain. Politicians and pundits often bemoan the government's lack of efficiency, its rampant waste, and its bureaucratic bloat. Some tout experience in private-sector business management when hawking the credentials of favored candidates for political office — whether Mitt Romney in the past or, more disturbingly, **Donald Trump** today. It is almost an article of faith, for some, that business-minded folks possess a magic formula to cure the dysfunction of government administration.

The Department of Defense is no exception when it comes to praise of managerial acumen or the need to adopt business practices. In recent **testimony** before the Senate Armed Services Committee on defense reform, more than one expert declared the need to emulate business practice or loosen the rules regarding private sector executives serving at the department. But there are two interrelated problems with these admonition to run the Pentagon, in particular, and the U.S. government, in general, like a business. First, and most obviously, the government is not a business. Second, the Department of Defense is already run like a business — and that's the culprit behind its chronic dysfunction.

Let's tackle the second problem first. The Pentagon has been managed according to principles from private-sector business since at least the early 1960s. The “**McNamara Revolution**” at the Pentagon was supposed to bring private-sector managerial techniques to the defense bureaucracy. Secretary of Defense Robert McNamara had worked at Ford Motor Company, where his application of statistical analysis to automobile production helped rescue the auto giant's struggling sales. In 1960, McNamara was named president of the company — the first non-Ford to hold the position since its earliest days. But his tenure was short-lived. In 1961, newly elected President John F. Kennedy asked McNamara to serve as secretary of defense in the hopes that he would apply the managerial techniques he used at Ford to the **management** of the U.S. military.

The centerpiece of McNamara's managerial revolution remains largely in place at the Department of Defense today. The Planning, Programming and Budgeting System (PPBS) installed at the Pentagon in the early 1960s was similar to the planning system McNamara used at Ford to streamline production. In regard to defense planning, PPBS created **mission packages** around which different programs would be built, comparing them to determine which could fulfill the mission most efficiently.

One of McNamara's successors, Donald Rumsfeld — in his second stint as secretary of defense, and after spending time as a private sector executive himself — **modified** the system only slightly. In 2003, PPBS became Planning, Programming, Budgeting, and Execution (PPBE). Rumsfeld believed that greater emphasis needed to be placed on the performance of Pentagon programs. Instead of just comparing system inputs for efficiency, PPBE would use “output measures” to judge how programs perform, with adjustments made following an “**execution review**.”

But the real problem with PPBS was not that execution had been ignored; it was that defense as a government activity is not comparable to the production of cars. While the latter has a verifiable output against which competing production techniques can be assessed to determine which provides greater efficiency, the former does not. The U.S. military is what political scientist James Q. Wilson **called** a “procedural” organization. The activities of these organizations do not lend themselves to efficiency measurements because the relationship of resource inputs to organizational outputs is often unclear. This is particularly the case during peacetime when a military's primary organizational output, success in combat, is unavailable.

Yet, even in the private sector, where outputs can be measured against efficiency, formal planning systems still fail. As management scholar Henry Mintzberg **explains**, PPBS and similar planning models suffer from what he calls the three fallacies of planning: (1) the “fallacy of predetermination,” which assumes that the future operating environment will comply with previously made plans; (2) the “fallacy of detachment,” which assumes that strategic formulation and implementation can be divorced from one another; and (3) the “fallacy of formalization,” which assumes that procedure can replace judgment when making strategy.

But, as Mintzberg argues, the future environment rarely conforms to forecasts; formulation and implementation of plans are necessarily intertwined; and overemphasis on formal procedure eliminates creativity. These three fallacies were exposed in the turbulent economic environment of the 1970s. In a 2010 essay on defense planning that drew on Mintzberg's work, political scientist Ionut Popescu **explains** that while successful firms moved away from formal planning systems and eventually abandoned them altogether, the Pentagon soldiered on under the discredited approach.

The fact that the private sector moved away from the very systems criticized by Mintzberg illustrates the fundamental problem with trying to run the government like a business. Market feedback induced some firms to adjust to the new circumstances. Those who could adjust weathered the storm; those who could not, failed. Such organizational failures are a part of life in the private sector. Over the 12 months ending in June 2016, more than **25,000 businesses** filed for bankruptcy — down from more than 59,000 over a similar period ending in June 2010. The Department of Defense is a different animal. It is difficult enough to cancel individual defense programs. It is almost inconceivable that Congress would allow a entire military service to go “out of business” should it fail to perform efficiently.

Even if market feedback were available, government bureaucracies like the Department of Defense could not respond the same way private businesses did. When facing trouble, successful firms reallocate funds, reduce overhead, use past profits to make new investments, and adopt ne managerial practices. As Wilson explained, the political constraints under which government bureaucracies operate do not allow that. The Department of Defense can rarely reallocate funds without congressional approval. Political interests actively **obstruct** attempts to reduce departmental overhead. The military has no profits of its own to reinvest. And even when it wants to adopt new practices, the Pentagon often requires legislative authorization to do so.

As the Senate Armed Services Committee explores **reforming** the Goldwater-Nichols Department of Defense Reorganization Act of 1986, and as Secretary of Defense Ashton Carter encourages the U.S. military to **follow** Silicon Valley's lead and be more innovative, we need to be cognizant of what separates an organization like the Pentagon from private businesses. There are few ways to capture market feedback in defense management, and the ability to respond to it is constrained by the political process.

Leveraging **competition** between the military services might generate market-like signals for the distribution of resources, and allowing the bureaucracy to allocate resources in response to those signals might lead to more efficient practices. However, expecting a mammoth bureaucra to mimic private sector practices — absent the mechanisms that make the private sector work — will only lead to further dysfunction.

This is not to say that business practices have no place in defense management, nor is it a call to bar businessmen from the Pentagon (or the government more generally). However, the success or failure of those practices — or of the individuals who implement them — is dependent on understanding the nature of the enterprise in question. Government bureaucracies are not businesses. They face different constraints and generally lack the market feedback needed to know which practices work and which don't.

It is entirely possible that individuals with business and managerial experience can bring new insights to defense management. It is highly unlikely that they possess any magic formula for overcoming the basic realities of bureaucratic life with which defense management must necessarily contend.

Matthew Fay is defense policy analyst at the Niskanen Center, a Ph.D. student in the political science program at George Mason University's Schar School of Policy and Government, and a fellow at the school's Center for Security Policy Studies.

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