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## Adam Smith Examines The Intelligence Economy

Todd Brethauer

*Editor's Note: In this era of downsizing and budgetary constraints, the US Intelligence Community faces the familiar challenge of being asked to do more with fewer resources. In the following article, the author offers a novel new economic arrangement between intelligence producers and consumers.*

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What should we do? Who should do it? How much should we pay? The answers to these questions will determine the future structure and operation of the US Intelligence Community. Public debate on reinventing intelligence to date has focused on organizational relationships and interactions. When intelligence was a cottage industry, this was an adequate approach. In dealing with today's global intelligence enterprise, however, this anthropological perspective no longer suffices. If the goal of changing the Intelligence Community is improved efficiency, accountability, and responsiveness to the nation's needs, the relationship between intelligence producers and consumers has to be redefined in economic terms—Adam Smith, not Margaret Mead. Doing so is the first step in ensuring that Americans get the best intelligence “value” for the tax dollar. In the military, we budget for food, fuel, ammunition, communications, personnel, and training. A businessman or economist should not be surprised that we face a perceived crisis in intelligence and medical care, the two areas we continue to treat as a right and not a resource to be carefully husbanded.

### The Business of Intelligence

Intelligence is a scarce resource—the essence of an economic commodity. Supply and demand must be reconciled. The manner in which that is done determines how much waste and inefficiency will occur. While our intelligence professionals and systems can do just about anything, they cannot do everything. Demand consistently outstrips supply. In the industrial world, the two approaches that have evolved to cope with this challenge are top-down central planning and bottom-up consumer-driven free markets. In response to Cold War demands, the US Intelligence Community chose central planning to solve the problem of allocating between haves and have-nots. The waste and inefficiency of central planning can no longer be tolerated. Cost-effective intelligence support under the National Security Strategy of Engagement and Enlargement requires the resiliency and discipline of the marketplace.

### The Cold War, Risk Avoidance, and Central Planning

Faced with the Soviet nuclear threat cloaked behind the Iron Curtain with its Warsaw Pact allies, the United States adopted a security and intelligence investment strategy focused on risk avoidance. The extraordinary costs of failure with respect to Soviet intentions and capabilities demanded nothing less. In the quest for certainty, competing intelligence collection systems and centers of analysis provided

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comparatively cheap insurance against catastrophe. Intelligence collection and production requirements drove the building of these systems and their tasking. Users generated requirements unconstrained by the harsh realities of having to consider the cost of their satisfaction. Nothing but the best was demanded as requirements grew in number and level of detail, because anything less would not do. Intelligence continued to be an entitlement of national or military command: it was not recognized as a scarce resource. To rationalize supply and demand and to guide investment allocation, national committees were established and operated under the guidance of a priority system. In the search for certainty that a Soviet attack was not imminent, the distortions and inefficiencies inherent in centralized decisionmaking were acceptable. This was true in a growing market protected by the monopoly of classification and concerned primarily with a single threat to national survival, but it is no longer the case.

### **The New World Disorder, Risk Management, and Market Forces**

The fear of Warsaw Pact armies advancing across the North German Plain as the first step toward a superpower nuclear exchange has abated. Now there is no perception of a continuing risk to national survival. In place of the monolithic threat, the United States faces a diverse array of regional and transnational military, political, social, and economic opportunities and challenges. The National Security Strategy of Engagement and Enlargement marks the transition away from a risk avoidance to a risk management focus. Rather than investing predominantly in

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“Evil Empire, Ltd.,” the Intelligence Community has to manage a portfolio of diverse national intelligence interests. The handling of such a portfolio based on a priority system is faltering. Intelligence central planning is not up to the task. It does not receive the necessary market signals to identify and reward efficiency.

### **The Intelligence Marketplace**

Like centrally planned industrial economies everywhere, the Intelligence Community cannot efficiently ascribe relative “value” to intelligence effort (collection or production). In addition, there is the fundamental problem that, as long as intelligence is free, users will demand all they can get. Unrestrained by a budget, user demands go through the roof. In the absence of a “cost” to the user, there is nothing to force the concept of “good enough.” The give and take between buyer and seller—the hallmark of an efficient market—does not exist between intelligence producers and consumers. The result is waste, duplication of effort, and misallocation of resources. To impose discipline and provide the market signals for the intelligence economy to function effectively in the post-Cold War world, an intelligence marketplace has to be built.

### **Imposing Budgetary Restraint**

To keep this from becoming the Comptroller-Guaranteed Employment Act of 1995 and to reduce the budgetary anxieties within the Community, the intelligence marketplace should use scrip and not actual cash. The scrip could be called Dulles Dollars, in honor of former Director of Central Intelligence (DCI) Allen Dulles. The flow of electronic scrip from consumers to producers would provide the necessary interaction between buyer and seller and serve to identify efficient producers at a fraction of the cost of using real money. Over a period of two or three years, the Dulles Dollar profits and losses of intelligence agencies and commands would provide necessary information to guide allocation of actual budgetary authority for maximum return on investment.

The scheme is simple. Annually, the DCI, with the concurrence of the President and the Congressional intelligence committees, would allocate to each branch, department, and agency a budget from a fixed pool of Dulles Dollars. Allocations would be based on intelligence needs of the users. Each department, agency, and branch would be responsible for dividing their allocation internally and among their subordinates. For transactions and accounting, the Dulles Dollars would be deposited in an electronic debit system on an existing intelligence system, with transactions occurring over existing intelligence communications paths. Because the accumulation of Dulles Dollars would influence future budget allocations, prices charged by the intelligence producers would have to reflect the actual dollar cost of production.

By imposing budgetary discipline on the generation of intelligence production requests, the power of the “invisible hand” of the market would be felt. Classical economic theory says that consumers would buy those products that give them what they need for the least cost. The concept of intelligence “value” is born.

Intelligence consumers could buy products off the shelf or have them tailored. Inefficient producers would eventually be forced to improve or leave the market. For example, an intelligence user today concerned about the threat to regional stability in Asia from AIDS could request, justify, and, in time, eventually receive a multisource study about the incidence of AIDS in Asia and its consequences. The requested study would be tailored to his specific needs. Cost of production would not enter into his decision process. When subject to budgetary discipline, the user could still request the same study. Now, however, when confronted with the prospects of having to “pay,” the World Health Organization study that addresses 90 percent of the issues and that is available free over

the Internet would begin to look attractive.

The scheme also could bring the efficiency of the marketplace to the intelligence collection process. Under such a system, intelligence collectors would bid for the work of satisfying consumers’ requirements for information. The collection discipline able to meet the requirement on time and within bid would win the contract. The number of Dulles Dollars the user would be willing to pay would reflect the “value” of the collection effort to his mission, with cost as a deterrent from padding the request with nice-to-know but not mission-essential information. Depending on the collection issue, consortiums between collection disciplines might form and should be encouraged. This would reduce duplicative, competing, and inefficient tasking. It also would encourage effective use of low-cost open sources.

Placing the relationship between intelligence producers and consumers on a new economic footing is fundamental to adapting the US Intelligence Community to the new national risk management strategy.