

# THE VALUE OF CAPABILITY

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*Links between military capability, strategic national objectives  
and non-market goods*

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# Why do we care about the benefits case?

- Defence is a Public and Non-Market Good - especially today
- Government intervention needed to correct consumption
- Government intervention requires:
  - Accountability for decisions
  - Comparison between public sectors
- Is Benefit > Cost? Is Value created > Money spent? Requires 'monetization'



# How should/do we value benefits?

- 'Willingness to pay' for goods
  - Stated preference - Edmunds (2010)
  - Revealed preference - Schneider & Troeger (2006)
- 'Willingness to accept' events occurring (costs)
- Treasury Green Book vs JSP507

“The valuation of non-market impacts is a challenging but essential element of... [the net value of a policy or project] and should be attempted wherever feasible”

Treasury Green Book, p61

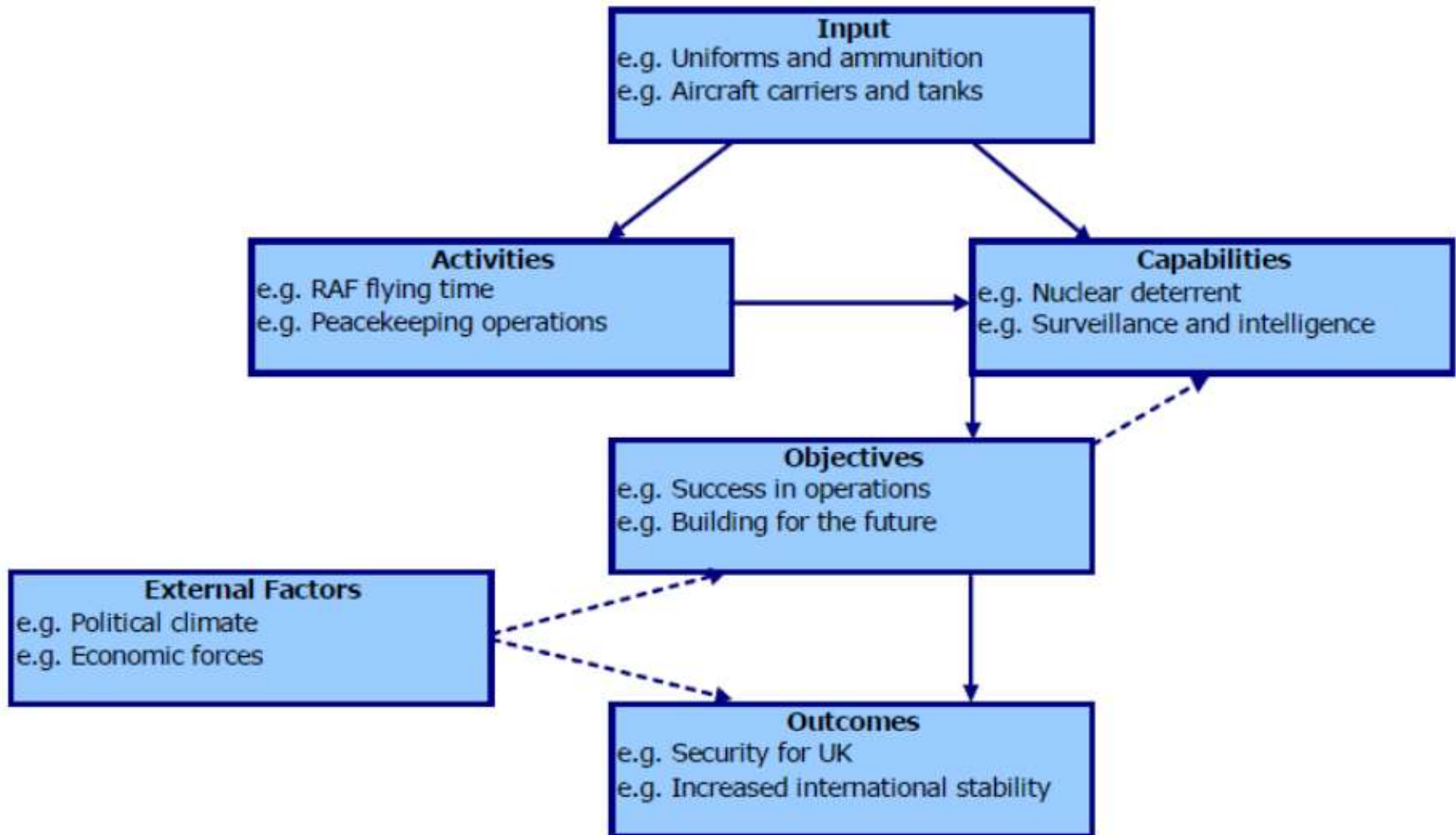
“ ‘Willingness to pay’ and ‘willingness to accept’ are not practical methods for valuing defence benefits in MoD appraisals, as the public is disconnected from the costs and benefits of defence, and so cannot make informed judgements on this issue”

JSP507, 4.2.6

# Problems in defence valuation

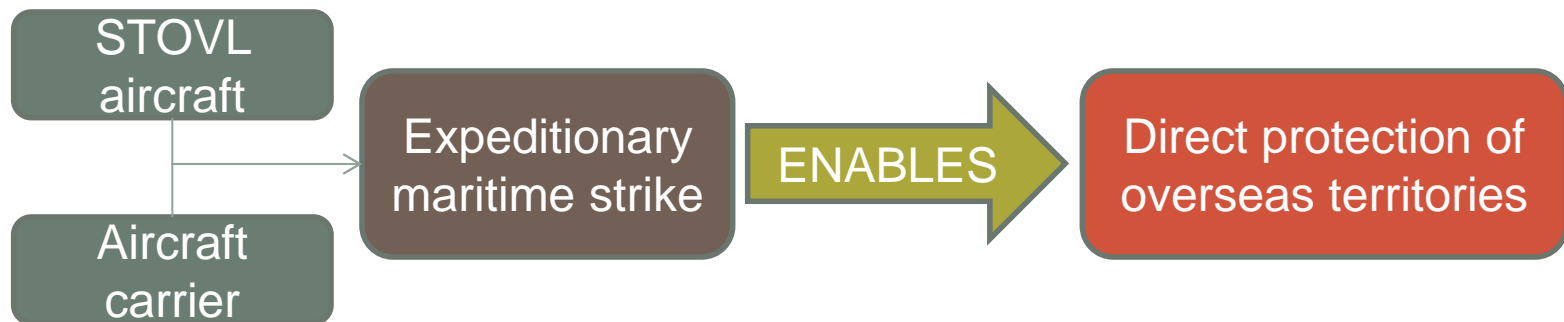
- Public goods
- ‘Public is disconnected’ - secretive objectives
- Rare expressions of preference eg terrorism events
- Joint products eg Aircraft carrier and STOVL aircraft  
(‘portfolio’ effect:  $\text{Sum} > \text{Parts}$ )
- Rivalrous goods
- Politicisation of objectives

# Anagboso & Spence (2008, 2009)



# Conclusions

- Fundamental need to value & monetize defence benefits, but difficult to deal with agent-principal information gap
- Anagboso *et al*'s hierarchy/value chain assists debate
- Can we link procurement of Inputs to the achievement of Outcomes which *can* be endorsed or rejected?



- Good practice in other sectors eg Healthcare, Environment



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