

NAVAL WAR COLLEGE
NEWPORT, R. I.

30 Nov

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Memorandum for Commodore Bates

Attached is a copy of a memorandum sent to the Chief of Staff today. Copies of references (a) and (b) of the memorandum are also enclosed; I will appreciate your returning them to me when you have read them.

H.E.E.

Sorry in late. I read this with interest long ago & then misplaced it.

It is extremely interesting & shows plainly the kind of thinking which should be done. But will the ^{F.S.}

NAVAL WAR COLLEGE
NEWPORT, RHODE ISLAND

30 Nov 1949

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From: Head, Department of Logistics
To: Chief of Staff

Subj: "Relationship of the importance of the various
budgetary programs to maintain the most
effective Navy" - General Board Project 8-49
7 Nov 1949

Ref: (a) General Board Conf Serial 019282Z 17 Nov 49
(b) SecNav Conf Ltr to General Board of 7 Nov 1949

1. The incoherence of the subject of the letter "Relationship of the importance of the various budgetary programs to maintain the most effective Navy" and the request for a "broad yardstick" etc, both seem to reflect a feeling of anxiety seldom conducive to sound thinking. We encounter many demands for formulae which can be used as substitutes for analytical thinking. The letter seems to reflect the uncertainty, the nervous tension and the desire for the "quick answers" which seem to characterize official Washington. Are these by-products of pressure exerted to fulfill reckless promises of economy and efficiency that were supposed to flow automatically from the passage of new legislation?

2. The subject is stated in such broad and general terms that it is desirable to make an "analysis of the mission" before undertaking specific comments. Paragraph 1 of the basic letter is a straightforward statement of an obvious need. Paragraph 2, however, is an oversimplification that can lead to much lost motion and confusion and possibly to dangerously shallow conclusions. As presently stated in reference (b) the subject can be interpreted in various ways. The following is suggested as a suitable start:

"A study of the balance which should be maintained between the operating forces, the shore establishment, research and development and the reserve training program in order to,

- (1) Provide the most efficient Navy possible within the funds allotted;
- (2) Provide a rough formula to assist in the preparation of budgetary requests;
- (3) Provide a means for improving the quality of the quick decisions made

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necessary by sudden changes in the availability of budgetary funds."

3. I do not believe it possible to write any formula (or broad yardstick) which will serve those three purposes. The broad yardstick approach will result only in guesses. An average of many individual guesses will result only in a consensus, never in a scientific analysis. This suggests a further re-phrasing of the mission as follows:

"A study of the relative importance of the operating forces, the shore establishment, research and development, and the reserve training program in providing the most efficient Navy possible. This, in order to increase the understanding of the Secretary of the Navy in order that he may exercise the best possible judgment in making the many budgetary decisions required by his position."

A further effect desired is to improve our budgetary processes by giving added flexibility which will enable the Navy to adapt itself most efficiently to the needs of an unpredictable and rapidly changing availability of budgetary funds. Since the basic and forwarding letters ask for comment on any aspects of the problem, further comments on budgetary and administrative procedures are appropriate.

4. Because the War College does not study nor have full information on the manner in which the Navy budget is prepared, nor has it full information on basic strategic and code plans, our comments should be limited to broad considerations and methods of achieving answers rather than be in the nature of specific answers themselves.

5. Fundamental Considerations

A. The relative importance between the elements discussed is not a constant. Instead it varies in a complex and at times completely unpredictable manner in accordance with the variations in the basic situation. Perhaps for certain fairly long periods it may be relatively constant but it would be a serious mistake to assume that it will be constant. Any answers achieved should therefore be frequently re-evaluated in the light of the variations in the fundamental factors in the basic situation. In other words, a continuous "Running Estimate of the Situation" is required.

B. For the foreseeable future the basic nature of maritime strategy and the importance and nature of seapower will not change. Therefore, an understanding of these most basic fundamentals is essential to an understanding of the problem.

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C. There will be constant changes and developments in weapons and techniques; this in turn requires that studies be limited over a time span and be frequently re-evaluated as discussed in A above.

D. The international situation will be constantly changing, particularly in its superficial aspects. While the determination of its basic development is more difficult and more important, nevertheless we may expect that the more obvious and superficial aspects will have a major effect on public and political opinion, hence on the budget. At the same time this same world situation will present varying requirements for Naval forces overseas to support our policies, officials and troops.

E. The domestic economic situation is another important variable which has important influence on the international and the domestic political situations as well as a more direct effect on the budget.

F. Determination and interpretation of the roles and missions of the three branches of the Armed Forces are two further variables in the situation.

The above are some of the fundamental considerations which determine the requirements for and the limitations upon Naval strength for this country.

G. The Fundamentals of Naval Strength, Effectiveness and Efficiency. While these three terms are closely related, we should not consider them synonymous. Instead let us bear in mind their differences in meaning as well as their similarities. (And at the same time beware of futile semantic hairsplitting!)

A. The first fundamental is the quality of our leadership and our high command. This is a combination of professional judgment, sense of leadership, technical proficiency, discipline, and experience. For our high command, we must always depend upon our professional officers. Professional judgment in the exercise of high command has as its basis the technical proficiency and discipline which comes only from service at sea with operating combat forces. Added to this, however, must be the broad understanding that comes only from the study of war. This is a lengthy process within each individual and is greatly assisted by our high level educational system. For this reason we should consider this system as an essential intellectual extension of our operating forces. The one (the operating forces) developing and maintaining the understanding of the physical realities of oceans, ships and sailors, and the other (the educational system)

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providing experience in thinking on a more extensive area than that normally experienced in the seagoing forces in peacetime.

B. In many important ways, a well designed educational system which fully exploits the capabilities of modern technology in the reproduction and representation of war and combat situations in moving miniature ashore is almost as useful and realistic and is vastly cheaper than the representation of similar situations with actual ships and planes in maneuvers at sea. The obvious implication of this is that the more we are forced to curtail the number and operations of ships at sea, the greater becomes the importance of expanding and improving our educational system.

C. A further development of the same line of reasoning indicates that: the more we are forced to curtail the number and operating experience of our regular officers and men the more important it becomes to improve the quality of our Reserve Training program.

D. The amount of money which properly should be devoted to research and development cannot be determined by any formula or rule of balance. Instead it should be determined by the need for and promise of individual projects in this field. In other words, each project should be evaluated on its merits in the light of the whole situation. In like manner the amount of money the Navy should allocate to pure research should be determined after an estimate of that situation in the country as a whole. I believe that the results achieved in pure research are more dependent upon the quality of applied brains than sheer money. The general and trite statement that we should not mount our horse and try to gallop simultaneously in all directions applies particularly to research and development.

E. (1) The manner in which the shore establishment contributes to the strength, efficiency and effectiveness of the Navy has in the past been the subject of such wardroom speculation and caustic comment. Nevertheless, it is the fundamental means whereby the industrial products of this country are converted into or provided for the individual units of the fleet. Individual parts of the shore establishment should be appraised on their merits. Unnecessary or unproductive units eliminated - those particular elements which absorb the largest amount of money given the greatest amount of scrutiny. We should be particularly alert to detect activities which function with an overhead disproportionate to the productive result. There can be a situation where funds have gradually been cut to the point of diminishing returns, i.e., we should eliminate the activity rather than attempt to operate it with further reductions.

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E. (2) As opposed to these obvious generalizations we should recognize that in the shore establishment political pressures often act to prevent the closing of uneconomical or unnecessary Naval facilities. In other cases standby facilities for war must be maintained by the Navy in the absence of going commercial facilities which are suitable of adaptation.

(3) The shore establishment is designed to support the fleet in peace and war, and no arbitrary figure can be used as a measure of proportionate size. The mission of each element should be scrutinized; the performance of each element maintained at maximum efficiency, and we should always be on guard lest the goal of apparently easy peacetime economies beguile us into instituting organizations and practices which cannot provide a smooth transition to war. Again, as in all other elements of this discussion, no formula can replace the exercise of sound executive judgment which is the only means of determining the proper size of the shore establishment.

7. Improved Flexibility in our Budgetary Process

A. It is apparent that the Secretary desires specific assistance in meeting sudden changes in budgetary funds. I propose that rather than attempt to write a formula which would apply to such a situation, we should make certain assumptions and make a separate analysis of the Navy Budget on the basis of each set of assumptions.

B. Possibly some mathematician might evolve formulae from such analyses but if so it would certainly require an electronic computer to solve them. The element of professional judgment - not professional guessing - is essential to each analysis.

C. Some of the basic assumptions which must be stated have been partially indicated previously in paragraphs 5 C, D, E and F. The analysts should further assume a series of budget amounts for each set of basic assumptions, and furthermore the budget should be in five-year increments or periods, not merely one year. Undoubtedly this type of approach will require the continuous full-time employment of a large and well trained budget staff. This, however, is preferable to guessing.

D. I believe it is difficult to overstress the importance of budgeting over a long period, say, five years. I believe through 1946-47-48 very large sums of money could have been saved had the planners of those years had any idea as to the appropriations for fiscal 1950.

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E. We at the War College actually have only a very limited knowledge of the methods of our budget people and of the present allocation of funds to the various categories mentioned in the subject letter. But even to those who have this knowledge, the fact that clean classification in the budget cannot be attained makes "yardstick" and "balance" budget recommendations dangerously unreliable. This is due to the splitting of tasks first between military and civilian personnel, and second, between payroll personnel using purchased material and contract purchases which are variable and arbitrary. (See page 1222 Naval Institute Nov '49).

8. Principles Upon Which to Base Our Efforts to Achieve Improvement in Budgetary and Administrative Processes.

A. Preparation for war 1950-52 is quite different than preparation for a war in 1960 and later. From now on the need for budgetary savings will constantly increase as Congress cuts appropriations.

B. Real economy comes from two major sources,

- (1) Analysis of missions by C.M.O. with objective of eliminating non-essentials and duplications and uncertainties.
- (2) Most efficient administration of the activities retained.

C. Efficient administration comes from a variety of sources. Among them the following rank high:

- (1) Organization: This covers many details, chief principle being centralized formulation of policy - decentralized execution of this policy.
- (2) Incentive to economy. This comes both from the top and the bottom and affects the whole fiscal structure and point of view of the Navy. Furthermore it is closely related to the laws, regulations and administration of the civil service. Examining incentives we find both direct budgetary savings and indirect budgetary savings.
 - (a) Considering direct budgetary savings, let us ask, What are these incentives? At present many of the savings in no way benefit the Navy - they merely revert to the general fund of the Treasury. Other savings made by individual activities do not in any way benefit the activity or the offices making the saving. The

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practical certainty that all budget estimates will be cut encourages inflated estimates which in turn encourage arbitrary percentage cuts which hurt the just and do not harm the unjust - thus the vicious fiscal circle is complete. It therefore is vital to permit a carry-over of appropriated or allocated funds. This should not, of course, be an unlimited process but there should be enough of it to permit the efficient accomplishment of work rather than the traditional rush to do work or purchase materials the last part of the quarter or the year. We should permit savings in one appropriation to be applied to another appropriation (again with limitations).

- (b) Indirect budgetary savings - When we tolerate the big wastes that stem from unsound fiscal policies such as above we encourage a wasteful attitude on the part of individuals both officer and civil service. Let us therefore search for incentives to real economy by individuals - reward efficient civil service by accelerated promotion of efficient personnel, and most important, let us make civil service rank dependent on real responsibility, not merely on the number of clerks who are being supervised.
- (3) Selection and Distribution of Personnel. We should overhaul civil service regulations and laws as recommended by Hoover Commission. We should also re-examine Navy regulations and practices to insure that we are taking full advantage of the present limited latitude permitted by present laws, rules and regulations. The above includes recommendations to Congress for new legislation.

9. Conclusion. I believe there are a few principles of economy that should be frequently re-emphasized. First, we cannot be as strong as we should like to be in all fields and areas. We should therefore select the vital areas and do a thorough job in these. To do this we should cut the non-vital areas ruthlessly. In this it is also well to remember that it is best to close out an activity entirely than it is to carry a major overhead in order to get a minor useful return. It is better to cut voluntarily than to let it die gradually, using up money in the process of dying. Secondly, economy does not necessarily mean a budget

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reduction in all activities; economy sometimes may dictate a budget increase in some activities.

Finally, I am grateful for being goaded by a provocative letter into clarifying many ideas of long though vague standing.

Respectfully,

H. E. ECCLES

CC: PLANS
SMT
INTEL.