



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

REMARKS
OF
EDWARD R. JAYNE II
ASSOCIATE DIRECTOR FOR NATIONAL SECURITY
AND INTERNATIONAL AFFAIRS
OFFICE OF MANAGEMENT AND BUDGET
AT THE NAVAL WAR COLLEGE
NEWPORT, RHODE ISLAND
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IT IS AN HONOR AND PRIVILEGE TO ATTEND THE NAVAL WAR COLLEGE'S 1978 CURRENT STRATEGY FORUM AND TO ADDRESS SUCH A DISTINGUISHED GROUP OF EXPERTS ON NAVAL AFFAIRS. ONE HAS ONLY TO LOOK AT THE FRONT PAGE OF HIS DAILY NEWSPAPER TO KNOW THAT THE NAVY AND ITS FUTURE IS A CENTRAL ISSUE IN WASHINGTON THESE DAYS, AND MANY OF YOU HAVE PLAYED KEY ROLES IN THAT DEBATE.

I WOULD LIKE TO SHARE WITH YOU THIS MORNING SOME OF MY THOUGHTS ABOUT WHERE THE NAVY IS HEADED AND ABOUT THE MANY POINTS OF VIEW BEING VOICED REGARDING THAT SERVICE'S FUTURE. AS YOU KNOW, THE PRESIDENT HAS WITHIN THE PAST WEEK APPROVED AND SENT TO THE CONGRESS A 5-YEAR SHIPBUILDING PLAN -- A PLAN WHICH SETS THE CHARACTER OF U.S. NAVAL FORCES IN THE 1980'S AND BEYOND. FOR SOME, THAT PLAN POINTS IN THE RIGHT DIRECTION, BUT PERHAPS MOVES TOO SLOWLY. FOR OTHERS,

IT SEEMS TO POINT IN MANY DIRECTIONS AT ONCE, BLURRING IMPORTANT CHOICES BETWEEN CERTAIN MISSIONS AND TYPES OF SEAPOWER. IN ANY CASE, THAT PLAN PROVIDES A BENCHMARK IN A CONTINUING PROCESS OF STUDY, ANALYSIS, AND DEBATE ON THE NAVY.

MUCH WILL BE SAID BEFORE THIS CONFERENCE ENDS AS TO WHAT THE NAVY SHOULD BE DOING IN THE NEXT TWO DECADES, AND I WOULD LIKE TO INCLUDE IN MY OWN CONTRIBUTION TO THAT DEBATE THOUGHTS ON THREE KINDS OF CONSIDERATIONS: BUDGET, STRATEGY, AND MANAGEMENT. I WOULD CAUTION YOU IN ADVANCE THAT MY VIEWS ARE MOLDED IN GREAT PART BY TWO FACTORS.

FIRST, I WEAR BOTH OF THE INSTITUTIONAL SYMBOLS OF THE OFFICE OF MANAGEMENT AND BUDGET -- A GREEN EYESHADE AND A LARGE BLACK HAT. SECOND, MY MAIN CONTACT -- INDEED MY ONLY SIGNIFICANT CONTACT -- WITH THE OPERATIONAL NAVY HAS BEEN WITH ITS CARRIER-BASED AIRPOWER, THOSE FORCES WITH WHICH I FLEW AND FOUGHT IN SOUTHEAST ASIA. WITH THAT AS BACKGROUND, LET ME MOVE TO MY THOUGHTS ABOUT THE NAVY AND THE BUDGET.

FIRST, TWO TRUISMS: NO ITEM IN OUR BUDGET IS OF HIGHER PRIORITY THAN NATIONAL DEFENSE, AND WE WILL ALWAYS PAY THE

NECESSARY PRICE FOR OUR SECURITY. SECONDLY, HOWEVER, OUR DEFENSE BUDGET WILL ALWAYS BE LESS THAN DESIRED BY MANY PEOPLE CHARGED WITH DEFENDING US. THUS THE DEBATE -- MUST WE HAVE A 600 SHIP NAVY FOR OUR SECURITY (OR PERHAPS 800, AS EVANS AND NOVAK NOTED YESTERDAY), OR IS THE 400-450 SHIPS IMPLIED BY OUR 5-YEAR PLAN SUFFICIENT? BEFORE WE ADDRESS THAT, LET'S LOOK AT THE BUDGET.

OUR FY 79 DEFENSE BUDGET REQUEST IS \$126 BILLION, A LEVEL WHICH PROVIDES FOR SOME 2-2½% REAL GROWTH OVER FY 78. BECAUSE MANPOWER COSTS ARE NOT PROJECTED TO RISE SIGNIFICANTLY, THE BULK OF THE REAL INVESTMENT INCREASE IS AVAILABLE FOR PROCUREMENT. IN DOLLAR TERMS, THE SERVICES WILL HAVE, ABOVE AND BEYOND THEIR PRESENT BUDGET LEVELS AND COMPENSATION FOR FURTHER INFLATION, AN ADDITIONAL \$3½ BILLION PER YEAR.

DOES THAT MEAN THAT THERE IS ROOM FOR A 600 SHIP NAVY, AN 18 DIVISION ARMY, AND A 30 TACTICAL FIGHTER WING AIR FORCE ALL AT ONCE? MOST PROBABLY NOT. WHAT IT DOES MEAN IS THAT, TO THE EXTENT THAT THE SERVICES CAN MAINTAIN OR IMPROVE THEIR PRESENT INVESTMENT RETURN ON THEIR EXPENDITURES -- MEASURED IN FORCES AND CAPABILITY -- THEY CAN GENERATE REAL INCREASES IN THEIR FORCES BY APPLYING THOSE REAL INCREASES IN BUDGET.

THE 5-YEAR PLAN WHICH THE PRESIDENT APPROVED THURSDAY HAS BEEN PRICED AT APPROXIMATELY \$31-32 BILLION, AND THOSE NUMBERS ARE IN MY VIEW CONSISTENT WITH OUR PROJECTED DEFENSE BUDGET TOTALS. IS THERE ROOM FOR EVEN MORE SHIPS WITHIN THAT TOTAL? YES AND NO. AS THE NAVY RANKS ITS OWN PROGRAMS IN THE ZERO BASED BUDGETING PROCESS, IT MAY OPT TO SUBSTITUTE MORE SHIPBUILDING DOLLARS FOR SOME OTHER PROGRAM, THUS TAKING THE INCREASE OUT OF ITS OWN HIDE. IN THE DOD BUDGET PROCESS, THE NAVY MAY SUCCESSFULLY PRESENT ITS CASE FOR THAT INCREMENTAL NEXT SHIP, AND DOLLARS WILL BE MADE AVAILABLE FROM THE ARMY OR AIR FORCE. FINALLY, THE PRESIDENT CAN HIMSELF MAKE A SIMILAR SUBSTITUTION FOR NON-DEFENSE DOLLARS IF HE CONCLUDES THAT THE NAVY'S REQUIREMENTS ARE MORE PRESSING THAN THOSE ON THE MARGIN IN AREAS SUCH AS URBAN ASSISTANCE, FARM PRICE SUPPORTS, OR ENERGY DEVELOPMENT.

WHEN WE SAY THAT THE DEFENSE BUDGET MUST RECEIVE FIRST PRIORITY, WE ARE OF COURSE CORRECT, BUT IN A RELATIVE, AS OPPOSED TO AN ABSOLUTE SENSE. WE WOULD NOT PLACE EVERY CONCEIVABLE DEFENSE DOLLAR ABOVE ALL OTHER PROGRAMS. WHAT WE WOULD DO IS INSURE THAT WE HAVE SUFFICIENT FORCES TO ACCOMPLISH A DESIRED RANGE OF NATIONAL SECURITY OBJECTIVES, ONCE WE ARE COMFORTABLE THAT WE ARE MAINTAINING THOSE FORCES, WE CAN CONSIDER OTHER BUDGET DEMANDS. I FIRMLY BELIEVE THAT

WE HAVE PROVIDED IN THE 1979 AND PROJECTED FUTURE DEFENSE BUDGETS SUFFICIENT FUNDS FOR OUR FORCES. IT IS TRUE THAT THE MANY YEARS IN THE EARLY SEVENTIES OF DECLINING DEFENSE INVESTMENT (IN REAL TERMS) HAVE LEFT A LEGACY OF FORCE STRUCTURE PROBLEMS. PERHAPS THE ARMY AND AIR FORCE ARE FURTHER ALONG THE ROAD OF RECOVERY FROM THAT PERIOD, BUT THAT IS TO BE EXPECTED. THOSE SERVICES' WEAPONS ARE LESS COSTLY AND HAVE SHORTER LEAD TIMES AND LIFE TIMES THAN THE NAVY'S SHIPS.

I BELIEVE THAT THE NAVY TOO CAN CONTINUE TO MODERNIZE AND TO GROW IN KEY AREAS WITHIN THESE BUDGETS. CERTAINLY, IT WOULD BE MORE COMFORTABLE TO HAVE AN ADDITIONAL \$10-20 BILLION TO SPEND OVER THE NEXT FIVE YEARS ON NAVAL FORCES, JUST AS EQUIVALENT SUMS COULD MAKE US MORE SECURE IN OUR APPROACH TO THE PROBLEMS OF THE CITIES OR THE FARMS OR ENERGY SUPPLIES. THE NAVY, LIKE EVERY OTHER GOVERNMENT ORGANIZATION WHO FIGHTS FOR ITS SHARE OF THE ANNUAL BUDGET, WILL (AND PARDON THE ANALOGY) SINK OR SWIM BASED UPON TWO FACTORS -- ITS STRATEGY AND ITS MANAGEMENT.

THAT BRINGS ONE TO MY SECOND TOPIC -- NAVAL STRATEGY. THE MERE MENTION OF THE WORD "STRATEGY" BY SOMEONE FROM ONE OFTEN BRINGS A CRY OF "FOUL" FROM DOD (AND OTHER AGENCIES

FOR THAT MATTER). AFTER ALL, WE BUDGET TYPES ARE SUPPOSED TO STICK TO COUNTING BEANS. AS I ONCE HEARD A SENIOR MILITARY OFFICER TELL AN OMB DIRECTOR -- "YOU JUST TELL ME HOW MUCH MONEY I GET TO SPEND, AND I'LL PROVIDE THE STRATEGY." IN THIS ADMINISTRATION, HOWEVER, PRESIDENT CARTER HAS ASKED OF OMB FAR MORE THAN MERE BOTTOM LINE BUDGET RECOMMENDATIONS. HE HAS SOUGHT FROM US AN INDEPENDENT ASSESSMENT OF THE STRATEGY AND IMPLEMENTATION OF THAT STRATEGY BY ALL DEPARTMENTS AND AGENCIES, NOT JUST DOD.

JIM MCINTYRE, MY BOSS AND OMB DIRECTOR, HAS DEMANDED OF HIS INSTITUTION TWO FUNCTIONS CENTRAL TO ISSUES OF STRATEGY -- REVIEWS OF THE DOLLAR IMPLICATIONS, BOTH SHORT AND LONG TERM, OF STRATEGY; AND EVALUATION OF THE MANAGEMENT OF PROGRAMS DESIGNED TO IMPLEMENT THE STRATEGY. THUS WE ARE ASKED BY THE PRESIDENT NOT ONLY "HOW MUCH WILL AN AIRCRAFT CARRIER COST?" BUT ALSO "WHAT CAPABILITIES DOES IT BUY ME, DO I NEED THOSE CAPABILITIES, AND, IF I DO, CAN I BUY THEM FOR LESS MONEY?"

WE HAVE EXAMINED THE RECENT NAVY STUDY, "SEA PLAN 2000," AND HAVE TALKED TO THE PRESIDENT ABOUT ITS STRATEGY IMPLICATIONS. OUR DELIBERATIONS HAVE SERVED AS A REMINDER OF CERTAIN KEY NAVAL STRATEGY ISSUES WHICH ARE AND WILL CONTINUE TO BE BEFORE US FOR DEBATE.

PERHAPS THE MOST FUNDAMENTAL STRATEGY ISSUE FOR THE NAVY INVOLVES THE DEGREE OF ATTENTION AND EMPHASIS IT GIVES TO ITS MANY MISSIONS. IN PURSUING THIS POINT, LET ME SET ASIDE FOR THE MOMENT THE SSBN ISSUE, AND CONCENTRATE ON THE OTHER ELEMENTS OF NAVAL FORCES.

THE TWO PRIMARY WARTIME MISSIONS OF SEA CONTROL AND POWER PROJECTION ASHORE CONTINUE TO BE AT THE CENTER OF THE DEBATE. HOW MUCH SEA CONTROL CAN WE AFFORD -- IS IT SO EXPENSIVE AS TO CAUSE US TO TAKE RESOURCES AWAY FROM THE TRADITIONAL CARRIER TASK FORCE AND CHANNEL THEM INTO MORE SPECIALIZED ASW AND ESCORT CONCEPTS? WE CAN ALL NAME KEY ELEMENTS OF THIS ISSUE: SES, FFGs, AND SSNs.

-- WHAT DO WE MEAN BY PROSECUTING A WAR "OVER THE BEACH" INTO AN AGGRESSOR'S HOMELAND? IF WE MEAN A KOREA OR VIETNAM KIND OF SCENARIO, THAT IMPLIES ONE KIND OF FORCE. IF WE MEAN SHUTTING DOWN MURMANSK, VLADAVOSTOK, AND PETROPAVLOVSK DURING A MAJOR NATO WAR, WE ARE TALKING ABOUT A MUCH DIFFERENT, AND MORE COSTLY, NAVY.

-- CAN THE NAVY BRING ITSELF TO USE MORE LAND BASED AIR FOR SEA CONTROL? SEA PLAN 2000 ARGUES, NOT UNPERSUASIVELY, THAT THE FLEXIBILITY OF SEA-BASED AIR DOMINATES THE ANALYSIS. SHOULD WE ALWAYS PLAN, HOWEVER, ON BEING DENIED THE USE OF RELEVANT OVERSEAS BASES? IS LAND BASED AIR REALLY LESS EFFECTIVE THAN SEA BASED IN AN ANTI-SHIP ROLE? THIS LATTER POINT SEEMS PARTICULARLY OPEN TO QUESTION IN LIGHT OF OUR

OWN CONCERN AND PLANNING REGARDING THE SOVIET'S LAND-BASED BACKFIRE FORCE.

-- WHERE DOES VSTOL FIT INTO ALL OF THIS? CAN THE NAVY, GIVEN THE FORESEEABLE BUDGETS, CONTINUE TO ACQUIRE SEABASED AIRCRAFT CAPABLE OF THE KIND OF BIG LEAGUE POWER PROJECTION I NOTED A MOMENT AGO, POWER PROJECTION AGAINST SOVIET HOMELAND AIR DEFENSE, AND AT THE SAME TIME PROVIDE THE NECESSARY FRONT END INVESTMENT TO CREATE AN ENTIRELY NEW GENERATION OF AIRCRAFT WHICH CAN OPERATE WITHOUT CATA-PULTS AND ARRESTING GEAR?

-- WHAT DOES THE PROJECTED THREAT, AT SEA AND ASHORE, TELL US ABOUT THE MIX OF OFFENSIVE AND DEFENSIVE CAPABILITIES OF THE FLEET? I WAS REMINDED RECENTLY AS I WATCHED THE IMPRESSIVE HOLLYWOOD RENDITION OF THE BATTLE OF MIDWAY THAT TODAY'S CARRIER TASK FORCE COMMANDER STILL FACES ADMIRAL NIMITZ'S PAINFUL DILEMMA OF HOW MUCH AIRPOWER TO COMMIT AGAINST THE ENEMY. TO UNDER-COMMIT MAY LEAD TO TOO LITTLE DAMAGE INFLICTED ON THE OPPONENT, TO OVER-COMMIT COULD MEAN THAT THE TASK FORCE COULD NOT ADEQUATELY PROTECT ITSELF. IN MY VIEW, THE ANSWER TO THIS QUESTION IS FUNDAMENTALLY A MATTER OF HOW BIG A TASK THE NAVY TAKES ON FOR ITSELF -- THE FLEET MAY BE ABLE TO ATTACK AND DEFEND IN A BALANCED WAY IN THE SOUTH CHINA SEA OR INDIAN OCEAN. IN THE MED OR BARENTS SEA, HOWEVER, IT MAY TAKE THE PREPONDERANCE OF OUR FORCES SIMPLY TO STAY AFLOAT.

-- FINALLY, WHAT KINDS AND NUMBERS OF SHIPS ARE NECESSARY FOR THE CRITICAL PEACETIME PRESENCE MISSION OF THE NAVY. IS IS REALLY MANDATORY TO HAVE A CARRIER TASK FORCE SAIL INTO A FOREIGN HARBOR IN ORDER TO HAVE THE DESIRED FOREIGN POLICY IMPACT DURING A CRISIS? COULDN'T AN LHA HAVE THE SAME EFFECT? IS IT THE SHIPS THEMSELVES WHICH SEND THE MESSAGE, OR MUST THEY CARRY AIRCRAFT CAPABLE OF FLYING ACROSS THE BEACH?

I HAVE HEARD ENOUGH DIFFERING THOUGHTS ON THESE AND OTHER QUESTIONS OF STRATEGY FROM WITHIN THE UNIFORMED NAVY TO MAKE ONE SOMEWHAT UNCOMFORTABLE WITH THE "STRATEGY" IMPLIED BY SEA PLAN 2000. TO THE OUTSIDE OBSERVER, THE VARIOUS "NAVIES" WITHIN THE NAVY -- THE AIR, SURFACE, AND SUBSURFACE ELEMENTS AND THEIR OWN SUBGROUPS -- SEEM DETERMINED TO PERFORM MUCH OF THE WHOLE NAVAL MISSION SINGLEHANDEDLY.

LET ME EMPHASIZE THAT I AM NOT ARGUING FOR ONE OR A FEW KINDS OF PLATFORMS TO ACCOMPLISH ALL NAVY MISSIONS. THAT APPROACH IS EVEN LESS RELEVANT HERE THAN IT WAS IN THE TFX. INDEED, I AM MAKING THE OPPOSITE POINT. SEA PLAN 2000 ARGUES THE VERSATILITY OF SEA-BASED AIR AND, LIKE MANY NAVY STUDIES BEFORE IT, ADDS CARRIERS AND ESCORTS TO MEET EACH INCREMENT OF MISSION REQUIREMENT FOR PROJECTION, SEA CONTROL, AND PRESENCE.

IT MAY WELL BE THAT ON THE MARGIN, A 13TH OR 14TH OR 19TH CARRIER GIVES YOU THE MOST FOR YOUR MONEY FOR ALL THESE MISSIONS. SO FAR AS I CAN SEE, HOWEVER, NO ONE HAS PROVEN THAT CASE IN THE STUDIES. I WOULD BE FAR MORE COMFORTABLE IF I KNEW THAT AN EQUIVALENT AMOUNT OF NAVY ANALYTIC TALENT HAD BEEN APPLIED TO EXAMINING CERTAIN OF THE NON-TRADITIONAL ALTERNATIVES (LAND-BASED AIR, VSTOL, MISSILE FRIGATES, ETC). I APPLAUD THE EFFORTS IN DOD TO EXAMINE SOME OF THESE OPTIONS, AND I WILL CONTINUE TO CHALLENGE MY OWN STAFF TO DO LIKEWISE.

ALTHOUGH WE MAY ALL FREQUENTLY HAVE TO READ ABOUT THIS DEBATE IN THE WASHINGTON POST AND ARMED FORCES JOURNAL, WE WILL BE BETTER OFF HAVING HAD IT. ONE MAN'S OPTIONS WILL BE ANOTHER'S DISCARDED OR SILLY IDEAS, BUT THE STAKES ARE TOO HIGH FOR US NOT TO ASK SUCH QUESTIONS. THE MERE FACT THAT OUR ADVERSARIES PLACE SO MUCH EMPHASIS ON SUCH CONCEPTS AS LAND-BASED AIR AND SMALL MISSILE-FIRING COMBATANTS SHOULD BE ENOUGH TO GAIN OUR INDIVIDUAL ATTENTION.

I WOULD NOT HAZARD A VIEW TODAY AS TO THE APPROPRIATE MIX OF VARIOUS NAVY FORCES. I WILL STATE CATEGORICALLY, HOWEVER, THAT THERE IS NOT ROOM IN ANYONE'S NAVY BUDGET, INCLUDING THE HOUSE ARMED SERVICES COMMITTEE'S CERTAINLY GENEROUS ONE, FOR ALL NUCLEAR-POWERED COMBATANTS, ALL F-14'S, MORE TOTAL SURFACE SHIPS, MORE AND BIGGER SUBMARINES, AND

AN ALL-OUT PUSH FOR VSTOL. SOME THINGS ON THAT LIST WILL HAVE TO GO. TO THE EXTENT THAT WE IN OMB, OR EVEN THE SECRETARY OF DEFENSE, MAKE THAT DECISION, THE NAVY WILL HAVE LOST SOME CONTROL OVER ITS OWN FUTURE. ONLY IF THE USN, APPLYING ITS OWN GOALS AND EXPERTISE, SETS MORE REALISTIC PRIORITIES CAN WE HOPE TO SEE A FULLY COHERENT AND BALANCED NAVY PROGRAM IN THE FUTURE.

LET ME TURN NOW TO QUESTIONS OF MANAGEMENT. THOSE SAME FRONT PAGE NEWS STORIES WHICH HIGHLIGHT THE NAVAL STRATEGY DEBATE ALSO REMIND US OF OUR CURRENT DIFFICULTIES IN THE SHIPYARDS. THOSE OF US CLOSE TO THE SHIPBUILDING PROGRAM KNOW THAT FEW IF ANY OTHER PROCUREMENT OFFICES, PUBLIC OR PRIVATE, FACE CHALLENGES AS GREAT AS THOSE ASSOCIATED WITH THE CONSTRUCTION OF COMBATANT SHIPS. NONETHELESS, THE CONTINUING STREAM OF STORIES ABOUT DELAYS, CONTRACT CHANGES, COST OVERRUNS, AND COST CLAIMS CANNOT HELP BUT INFLUENCE ATTITUDES ABOUT THE FUTURE OF THE NAVY.

SHIP CONSTRUCTION TAKES A LONG TIME. THAT DICTATES THAT WE ESTIMATE OUR FORCE LEVEL AND MODERNIZATION NEEDS FURTHER INTO THE FUTURE THAN FOR MOST OTHER CAPABILITIES, AND ACCEPT THE RESULTING UNCERTAINTY AND IMPRECISION AS A FALLOUT. AT THE SAME TIME, HOWEVER, THERE IS NO NEED TO APPROVE TOO MUCH, TOO SOON -- PARTICULARLY IF IT RESULTS IN OVERTAXING SHIPYARDS, ESCALATING PRICES AND MISSING

DELIVERIES. LARGE BUDGETS MAY SIGNAL OUR COMMITMENT TO A STRONG NAVY, BUT OUR ADVERSARIES ONLY HAVE TO READ THE NEWSPAPERS TO KNOW THAT SHIPS ARE NOT BEING DELIVERED AS PLANNED. UNDER SUCH CIRCUMSTANCES, BUDGET SIGNALS ARE RATHER MEANINGLESS. INDEED, OUR PLANNED REAL INCREASE IN THE FY 80 DEFENSE BUDGET (OVER FY 79) ALLOCATES \$600 MILLION OF THE \$2 BILLION TOTAL DOD PROCUREMENT INCREASE FOR ADDITIONAL SHIPS. THE NAVY'S CRITICS WILL REMIND US THAT THAT \$600 MILLION WILL BE LESS THAN THE PROJECTED AMOUNT WE ARE LIKELY TO HAVE TO ADD TO THAT SAME BUDGET TO HANDLE COST-GROWTH -- SOME WOULD CALL THEM "OVERRUNS" -- FOR PREVIOUSLY FUNDED SHIP CONSTRUCTION.

AT TIMES, IT MAY APPEAR ADVANTAGEOUS TO EXPEDITE SHIP DELIVERIES AND CUT COSTS BY SHORTENING RESEARCH, DEVELOPMENT AND OPERATIONAL TESTING. HISTORY HAS SHOWN TIME AND AGAIN, HOWEVER, THAT CUTTING CORNERS IN THE CRITICAL EARLY STAGES OF A PROGRAM COMES BACK TO HAUNT US IN THE FORM OF HIGHER PRICES, MISSED DELIVERIES, AND REDUCED CAPABILITIES. A CLASSIC EXAMPLE, FAMILIAR TO MOST OF YOU, IS CONSTRUCTION OF THE NEW PERRY-CLASS FRIGATES. THE ORIGINAL FFG BLUEPRINT WAS TOUTED AS LEAN AND EFFICIENT, WITH A PRICETAG BROUGHT DOWN BY TOUGH PLANNING AND DESIGN. HOWEVER, IT HAS ALREADY BEEN NECESSARY TO PROVIDE AN ADDITIONAL GENERATOR. EARLY IN THE DESIGN OF THE FFG'S, THIS PARTICULAR GENERATOR HAD

BEEN ELIMINATED TO CUT COSTS. OBVIOUSLY, THE FIX PROVED TO BE MORE EXPENSIVE IN THE LONG RUN. WE AT OMB BELIEVE EACH NEW SHIP SHOULD BE DEVELOPED AND DESIGNED FULLY PRIOR TO AUTHORIZATION, AND THAT COMPLEX, HIGH TECHNOLOGY SUBSYSTEMS SHOULD SUCCESSFULLY COMPLETE A FULL RANGE OF OPERATIONAL, AS WELL AS DEVELOPMENTAL, TESTING PRIOR TO A PRODUCTION GO-AHEAD. THE RISKS ASSOCIATED WITH FIELDING A FAULTY SYSTEM APPEAR TOO HIGH RELATIVE TO THE POTENTIAL BENEFITS OF EARLY INTRODUCTION.

FROM WHERE WE SIT, OUR GREATEST INTEREST IS TO HAVE AS EFFICIENT A SHIPBUILDING PROCESS AS POSSIBLE, SO THAT WE GET EFFECTIVE SHIPS DELIVERED ON TIME WITHIN BUDGET COSTS. WE WANT TO AVOID GETTING HUNG UP ON QUESTIONS OF THE COMPARATIVE NATIONAL SECURITY IMPACTS OF HAVING A SHIP AT SEA IN 1984 VERSUS 1986, AND GET ON WITH THE BUSINESS OF DELIVERING QUALITY SHIPS WITHIN A REASONABLE PERIOD OF TIME. OF COURSE, WE HAVE TO PROTECT THE TAXPAYER'S INVESTMENT, BUT THE NATION CANNOT AFFORD TO HAVE ITS KEY DEFENSE SUPPLIERS DRIVEN OUT OF BUSINESS. WE CAN DEBATE HOW MUCH SHIPBUILDING CAPACITY THE NATION NEEDS, THE PREMIUM WE SHOULD PAY TO MAINTAIN IT AND IN WHAT FORM IT SHOULD BE PAID, BUT IT IS CLEARLY IN THE NATIONAL INTEREST TO PRESERVE A STRONG SHIPBUILDING INDUSTRY, ONE WHICH IS GIVEN A CLEARLY DEFINED JOB TO DO AND CAN BE MEASURED AGAINST THAT GOAL IN THE END.

TO SOME EXTENT, WE MAY BENEFIT IN THE NEAR TERM FROM COMMERCIAL SHIPBUILDING TRENDS. SOME SHIPBUILDERS -- AND THERE ARE A NUMBER HERE WITH US TODAY -- ARE ANXIOUS FOR NEW BUSINESS, AS THEIR COMMERCIAL BUSINESS DROPS RATHER DRASTICALLY. WITH COMMERCIAL ORDERS ON THE DECLINE, NAVY WORK SHOULD BECOME MORE ATTRACTIVE. WE SHOULD BE ABLE TO NEGOTIATE BETTER TERMS, MAKING OUR SHIPBUILDING DOLLARS GO FURTHER THAN WE HAVE BEEN ABLE TO DO IN THE RECENT PAST WHEN COMMERCIAL WORK WAS AT ITS PEAK.

THESE THOUGHTS ABOUT IMPROVED MANAGEMENT ARE CERTAINLY NOT NEW, NOR ARE THEY PANACEAS. THEY DO REPRESENT SINCERE SUGGESTIONS ON MY PART TO ADDRESS A SEVERE NAVY PROBLEM. IF YOU RETAIN NOTHING ELSE I SAY TO YOU THIS MORNING, PLEASE REMEMBER THIS. THE PRESENT SHIPBUILDING DIFFICULTIES REPRESENT IN MY VIEW THE SINGLE MOST INFLUENTIAL REASON WHY PRESIDENT CARTER CHOSE NOT TO ACCELERATE NAVY SHIP PURCHASES IN THE 1979 BUDGET. THE MULTIBILLION DOLLAR COST GROWTH, THE DELAYS OF UP TO TWO YEARS IN DELIVERY DATES, AND DIFFICULT RELATIONS BETWEEN THE NAVY AND ITS MOST IMPORTANT SHIPBUILDERS SIMPLY CANNOT CONTINUE IN ITS PRESENT STATE.

"DARN THE TORPEDOES, FULL SPEED AHEAD" IS NOT AN ACCEPTABLE RESPONSE. BUT LET ME STATE CLEARLY THAT I DO NOT BELIEVE THAT THE NAVY AS AN INSTITUTION HAS DUCKED THE PROBLEM. I BELIEVE THAT SECRETARY CLAYTOR, JIM WOOLSEY,

15

AND ADMIRAL HOLLOWAY HAVE ALL BEEN MAKING MAJOR EFFORTS TO REDRESS THESE DIFFICULTIES. SOME IN THE NAVY, HOWEVER, SEEM MORE COMFORTABLE WITH CONTINUING THE RHETORIC THAN WITH BAILING OUT THE BILGE. IT IS MY CONSIDERED JUDGMENT THAT IF, AT THIS TIME NEXT YEAR, WE HAVE NOT MADE VISIBLE PROGRESS IN MANAGING OUR SHIPBUILDING PROGRAM, THE INCREMENTAL GROWTH REQUESTS FOR ARMY AND AIR FORCE PROGRAMS WILL AGAIN RECEIVE PRIORITY IN THE BUDGET, NOT BECAUSE THEY ARE MORE NEEDED IN SOME ABSOLUTE SENSE, BUT BECAUSE THEY HOLD THE PROMISE OF A GREATER RETURN, IN TERMS OF SECURITY, FROM THE INVESTMENTS MADE. CERTAINLY, ALL FOUR SERVICES PROVIDE ABSOLUTELY ESSENTIAL ELEMENTS OF OUR SECURITY. BECAUSE TRADEOFFS AT THE MARGIN AMONG SERVICES ARE EXTREMELY DIFFICULT TO MAKE, THE PROGRAM WITH THE BETTER TRACK RECORD IN ITS MANAGEMENT WILL HAVE AN EDGE.

IN CONCLUSION, I BELIEVE THAT THE NAVY'S FUTURE WILL BE DICTATED IN GREAT PART BY ITS OWN INTERNAL APPROACHES TO THE STRATEGY AND MANAGEMENT QUESTIONS I HAVE OUTLINED. SO FAR AS STRATEGY IS CONCERNED, IT SEEMS CLEAR TO ME THAT THE NAVY CANNOT ACQUIRE FORCES TO PURSUE ALL OF ITS MISSIONS TO THE DEGREE IMPLIED BY SEA PLAN 2000 WITHOUT SECURING A LARGER SHARE OF THE OVERALL DEFENSE BUDGET. GIVEN THE PRESIDENT'S PRIORITIES, THE DEMANDS FOR NATO AND STRATEGIC CAPABILITIES, THE BURDEN OF PROOF WILL BE ON THE NAVY.

TO THE EXTENT THAT MILITARY EXPERTS (OFTEN IN DARK BLUE UNIFORMS) ARGUE FOR NEW CONCEPTS LIKE VSTOL AND CRUISE MISSILE FORCES, THE NAVY SHOULD THOROUGHLY EVALUATE THOSE OPTIONS, RATHER THAN LEAVE SUCH TASKS TO OSD, THOSE OF US IN THE EXECUTIVE OFFICE, OR CONGRESSIONAL STAFFS.

IT IS SOMETIMES DIFFICULT IN THIS GREAT AND RICH NATION OF OURS TO ACCEPT THE FACT THAT THERE IS NO SUCH THING AS A FREE LUNCH. THERE IS HOWEVER IN PRESIDENT CARTER'S BUDGET PROJECTIONS ENOUGH ROOM FOR VIGOROUS DEFENSE MODERNIZATION.

IF THE NAVY CAN TURN EVEN MORE OF ITS ATTENTION TO THE PROCESS OF ACQUIRING AND MAINTAINING ITS FORCES, IT CAN CONTINUE TO GROW STRONGER AND MORE CAPABLE. IF IT ALLOWS ITSELF TO BE SNARED, HOWEVER, BY THE RHETORIC OF THOSE WHO SEE THE ONLY PROBLEM AS BEING LACK OF MONEY, I WILL BE LESS OPTIMISTIC. AS I HOPE I HAVE MADE CLEAR THIS MORNING, I HAVE NO BRIEF FOR ANY PARTICULAR NAVY SYSTEM OR MISSION, NOR DO I BELIEVE MORE ANALYSIS OR STUDY IS THE SOLUTION. WHAT THE NAVY NEEDS TO DO IS UNDERSTAND ITSELF, ITS HIGHEST AND LOWEST PRIORITIES, AND BE ABLE TO TAILOR FORCES ACCORDINGLY WITHIN A BUDGET SHARE CONSISTENT WITH THOSE OF THE PAST.

WE AT OMB MUST STILL WEAR OUR BLACK HATS, HOWEVER,
WE CONTINUE TO SUPPORT A VIGOROUS LEVEL OF DEFENSE
MODERNIZATION. THE PRESIDENT'S OVERALL 1980-1983
PROJECTIONS PROVIDE FOR SUBSTANTIAL REAL GROWTH, THERE
IS A LOT OF COMPETITION FOR THIS REAL GROWTH. THE CHALLENGE
IS THERE, AND I WISH THE NAVY WELL.