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INTRODUCTION TO PROCUREMENT AND ECONOMIC STABILIZATION

20 November 1952

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INTRODUCTION TO PROCUREMENT AND ECONOMIC STABILIZATION

20 November 1952

CAPTAIN HAYES: Admiral Hague, General Greeley, Dr. Reichley, ladies and gentlemen: This morning we start Unit VI of the Economic Mobilization course which includes the subjects of Procurement, Economic Stabilization, and the Federal Budget. This unit is taken concurrently with Requirements, Unit V, for the good and sufficient reason that both units are very closely related as you will realize as the course proceeds. Requirements are the expression of military needs; procurement is the obtaining of these needs from the economy. Economic stabilization comprises the measures that we use to control the economy under the impact of procurement. And, of course, the Federal Budget is the systematized method of providing the funds.

I am going to be quite general this morning so I would like to start with a quotation from a philosopher, if you don't mind. This is from Francis Bacon's famous essay "Of Studies." It is only a page long and you can find it down in the library in the third volume of the Harvard Classics: "Reading maketh a full man; conference a ready man; and writing an exact man."

This is the goal of the Procurement Unit and the hope of the Procurement Branch. In that expression you will find the reason for many of the things we will ask you to do in the next seven weeks. We hope you will keep Bacon's description of the Complete man in mind throughout this course.

By way of introduction to these three subjects, I could tell you that you are going to find the study of them quite involved and quite controversial. Actually, I am going to leave to your very qualified instructors the job of acquainting you with the fundamentals of these three subjects. You all have these procurement monographs, three of them. We think they are good. If you don't agree with us, we hope you will tell us so. We thought that no harm would be done if you went through them twice, once in reading them yourself and a second time in discussing them with some member of the Branch. So we have designated three periods next week in which you can go over these monographs with members of the Branch--the Procurement monograph with Colonel Crosby; the Economic Stabilization monograph with Dr. Kress; and the Federal Budget monograph with Commander Geist.

As I said, I am going to keep my remarks quite broad. As a matter of fact, I am only going to discuss trends in procurement, trends as I see them. I will discuss trends in procurement alone, omitting Economic Stabilization and the Federal Budget, because the other two subjects are closely related, as far as we are concerned, to military procurement.

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These are the trends I would like to discuss. We will start off with what I call the Increased Stature of the logistics man in our present military picture. By a logistics man I mean anybody from General Magruder, who talked to you yesterday; Admiral Fox, who will talk to you tomorrow; down to the poor little contracting officer who seems to catch all the hell in this particular field. By logistics I mean both requirements and procurement, or what we call in the Navy "Producer Logistics."

We live in an era of rapid change, an era of revolution. Nowhere is this revolution more pronounced than right in our own profession. This school was established by reason of a phase in this revolution--industrial mobilization. In World War II this revolution took the form to a large extent of using logistics to assure victory. Logistics, I think, has come into its own, somewhat begrudgingly, somewhat belatedly and has an equal status now with strategy and tactics in the trinity of warfare.

In World War II logistics was the key. I think that economic potential is now the key. In the last war economic potential was the basis for victory, but this time we are supposed to use it to prevent war. To me it seems that strategy and diplomacy are now dependent variables of economic potential and economic mobilization. Economic potential is no longer an inexhaustible constant; it's actually the controlling variable in the world power equation.

This revolution in warfare, again as I see it, has created certain basic changes important to national security. One of these changes is that military organizations are now complex parts of our industrial society. They function like large industry although they are larger and, of course, more complex. A second change is that the positions of the military and the civilian are no longer sharply defined in our national life. Both of them have responsibilities for national security. Finally, we all know the days of the philosophy of military plenty are over. We took an awful toll of our resources in the last war, and today we see Great Britain, a prostrate victor of two exhausting wars. It is our job to keep our country unconquered and unconquerable, but at the same time this generation of Americans want to keep for their children something of the heritage that made this country great in the first place.

I want to repeat those three factors I just mentioned: First, that military organizations are now large segments of our industrial society; second, that the positions of the military and the civilian are no longer sharply defined; and, third, the days of the philosophy of military plenty are now over.

These considerations, I believe, are very important in requirements and procurement and I hope you will keep them in mind during the next seven weeks--or nine weeks if you want to include the Christmas period. They are so basic I think that sometimes we forget them in our narrow concentration on specific problems. After all, procurement and requirements are the two subjects which form the link, you might say, between

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military organizations and the civilian economy. In addition, the integration of these two fields, these two areas is important and I think it represents a big challenge to the logistics man today.

Military programs have to consider not only strategic situations; they have to consider the economic situations throughout the whole world as well, programs have to be changed as conditions in both of these areas change. A logistics man has to listen to the strategist on the one side; on the other side he has to listen to the economist. He has to decide which has the more legitimate claim at that particular time. Like the strategist, when these factors don't fit into a satisfactory pattern, he has to do what the strategists and the tacticians do in similar situations, he takes a calculated or acceptable risk. I think General Magruder indicated that to us yesterday.

If we in the military are going to retain control of our own destiny, if we are going to enjoy the freedom of action and the confidence which we have had before, the logistics man, as I see it, is going to have to rise to new heights. He has got to stand up and talk back to the strategist. He must not cower to the cliché that "Supply must be responsive to command." He can answer with another--"Make the best of what you have." Admiral King used to tell us that in the early days of World War I and believe me there were none to deny him.

On the other hand, the logistics man must aggressively battle to regain the confidence of the American people in how we are using the funds entrusted to us. It seems to me we have got to find some more positive program than we have right now of just denying irresponsible and irrational charges of waste such as this (holding up a small pamphlet) which I will put on the bulletin board after this is over. We have got to find something better than this rear guard action that we are going through right now. So much for the job of the logistics fellow.

Let us talk about the second point here, the complexity of procurement. The postulate of military procurement is that an economy functions by means of a price system. This is true in peace as well as in war. As far as we know, it is true in every country. In the United States we use a competitive system to shape our economic life. By prices we allocate resources and prices form the means and the incentive for individual and corporate enterprise.

However, in war we cannot use prices alone to allocate or organize our resources. Controls are necessary for both political and economic reasons. It is a principle of national policy now that prices or budgets should not be allowed to interfere with a country's defense or its vital interest. Nevertheless the price system must still be used in war for it is not easy to devise a synthetic substitute for competition. But the ends we seek from a price system may conflict in war and if not controlled may obstruct the war effort instead of helping it.

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Now we are in a situation which is somewhere between the conventional ones of war and peace. Whatever you want to call it, it means that we have a large military program superimposed on an economy that has to continue to operate in the normal manner, an economy that is now operating at high speed. So far as we know, it must continue to operate in that manner indefinitely. In this case the ordinary competitive system of peace will not suffice and we cannot use the pattern that we used in World War II with a considerable amount of success. Today we have conditions of war under the rules of peace and we have to pay for it as we go along. That is the reason, as I see it, for the complexity of the procurement problem today, and this problem is getting more complex as the programs are growing.

The only thing that is really constant in all this befuddled area of change is the capacity and the capability of a human being. If human beings are going to be able to control situations in modern life that become more complex and more complicated, we have got to incorporate some process of simplifying at the same time. That is the big challenge, as I see it, in procurement today--to find some way of simplifying these large programs.

I have put down four means that we might adopt, four general approaches to this simplifying process. The first one is to centralize. That, it seems to me, is what we are trying to do right now with our unification of effort and methods. It is the most plausible way, and perhaps we will get some simplification from it in time, but we haven't made very much progress yet.

The other method is completely opposite--decentralizing. That is what American industry has done. American industry had problems similar to ours, problems of growth. They were never as large as ours, but they had the same general form. Industry went to the decentralizing approach to such an extent that now the division of authority has gone so far that oftentimes important functions of an industry are delegated completely outside of that industry. Actually this delegation is more or less common in our every-day life. The only tool I have in my house is the telephone and while my wife does not like it, I am satisfied. Nevertheless, the military man has a hard time adopting this attitude for military organizations. Industry seems to get along all right without having to worry about command relationships. They do not even use the word command.

This book which you presumably read in your Orientation course, General and Industrial Management by Henri Fayol, Fayol indicates that organizational structure has the form of a ladder. I think we worry too much about the uprights of this ladder and don't use the rungs of the ladder, especially these lower rungs, like American industry seems to do. For cases of decentralization, I give you the Dupont Company, General Motors, and the changes in the Monolithic Ford structure since young Henry Ford took over.

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Another means of simplifying the procurement problem is what I call dynamic logistics. That is a term I have created--just adding to the "Mumbo-Jumbo," boys, that's all. But here is what I mean by it. For purposes of analogy but not exactness I will use mathematical symbols to express what I mean. You are acquainted with the formula $E = \frac{1}{2}MV^2$ where E is Energy, M is Mass, and V is Velocity, a Newtonian concept which I am told is out of date. It will do for our purposes. Here is the dynamic logistic analogy: $L = f(MV^n)$ where L is dynamic logistics, M is mass of supply or inventory, and V is movement of supply or transportation.

Now if you cover this part of the equation--V--logistics becomes static. I think that is our trouble. We think too much of logistics as something static, in terms of tables of organizations, allowance lists, and pipelines, and we fail to consider in our logistic thinking the wonderful possibilities of our transportation system, land, sea and air. You all know, of course, the advantages of air transport; you Navy files know the possibilities of mobile logistic support. The Red Ball Express carried on the war in Europe when all other logistic systems broke down.

If we would work more on the V instead of just building up M as the demand for L increases, we could do what American industry has done, operate on small inventories and thereby cut down on the large procurement program. We all know that buying liquor by the case is, after all, a false economy. We seem to drink more that way.

Another simplification method that we could use to improve the procurement situation would be to adopt what might be called "non-specific buying." We expect industry to produce for us in war the same as they produce civilian goods in peace, by mass production methods. But to get our wants as civilians all we do is express in general and indirect form and we let industry produce an article that is low in cost and high in quality. As military men, however, we insist on what you might call the "made to order" method which American civilians disregarded long ago. We insist on rigid specifications, elaborate specifications; we insist on making changes and stopping production lines to make those changes. Perhaps considerations of quality are more important than those of quantity and cost but if they are, I think we ought to be able to give better reasons than we have so far.

To indicate that industry can give better and cheaper products than the military design, I refer you to the Pontiac and the Oerlicon gun case and the Higgins tank lighter case. Both occurred in World War II and you find some of this written up in Donald Nelson's book. As a matter of fact, if you read the Oerlicon gun case, you will find some of the reason for all the trouble we are having now with off-shore procurement.

I have gone pretty far afield this morning and some of the things I have said you probably won't agree with. But I have done that for a purpose. I hope that in this course you will keep your premises broad

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and your assumptions valid and that you will keep examining these assumptions as you continue to go along. In seven weeks we can't expect you to come up with any complete or simple solutions to these very complicated problems we have presented to you. But I think if you will keep your premises broad and your assumptions valid and do a lot of extensive research and intensive reading, you will come up with some good ideas that you can use for basic principles not only in these problems but in your problems that you will meet in the future. That is what we hope you will do.

I think that one of our troubles today in the growth of our military organizations is that we haven't researched administrative problems in the same way that we have always researched scientific problems and as we have learned to research operational problems in World War II. Procurement directives these days have a tremendous impact outside the services. If those directives are not based on sound decisions that are the results of objective estimates of the situations, I don't think it is going to be long before we hear from civilian agencies of Government and from industry and, most of all, from the Congress.

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