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Defense Economic Analysis Council

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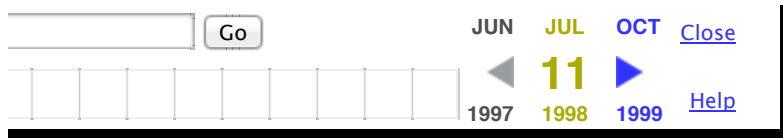
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Economic Analysis Handbook

Foreword

This handbook is a result of the effort by the Defense Economic Analysis Council, Handbook Committee, representing the Services and Agencies of the Department of Defense. It is designed as a starting point for personnel who have little or no experience with Economic Analysis. The Council is guided by the thoughts of the Assistant Secretary of Defense (Comptroller), The Honorable Robert C. Moot:

"... We will review some common-sense ideas, that are not at all complicated, and see a few simple, practical examples of the application of Economic Analysis. Economic Analysis has much in common with value engineering, cost reduction programs, and cost-benefit staff studies. The Economic Analysis program is, in fact, our attempt at borrowing the best or most practical features of each of these rather different programs and bringing them together in a consolidated set of guidelines. These guidelines can be easily understood and meaningfully applied by all managers from the lowest to the highest level within your Departments."

In discussing what might be done to further the use of Economic Analysis, Mr. Moot said:

"First, under our participatory management philosophy, the initiative of defining priority areas for doing economic analyses and program evaluations is left to the DOD components. The components are also responsible for assuring that appropriate analyses are included in the decision process.

The second point I want to emphasize is that the job ahead, as I see it, is to reform and strengthen an existing system, not to establish a new one. In my judgment, there already exists within the Department a vast amount of manpower and other resources dedicate to performing analysis and reviewing, and using the products of analysis. Our goal is to pull all those individual efforts together.

Third, the idea that Economic Analysis must be integrated into the existing decision process is not new, but it is critical. An analysis should be prepared at the operational level and reviewed by those having a primary responsibility for the success of a program or project. We do not intend for Economic Analysis to become the sole factor in making decisions about efficient use of resources. But it is becoming increasingly apparent that new funding requirements are difficult to justify if local managers have not made a suitable Economic Analysis to back up their decisions. This does not mean, of course, that every project supported by an Economic Analysis will be funded. It does mean that the decision-maker should at least know the costs and benefits of his actions, and what trade-offs have been indicated in his decisions. To quote a computer manufacturer's recent ad, 'No one can take the ultimate weight of decision-making off your shoulders. But the more you know about how things really are, the lighter the burden will be.' I believe thorough Economic Analysis of the management problems you face will provide better overall visibility and will assist in your decision-making. The fourth point I want to make is that managers need not be experts in Economic Analysis to get the most benefits from its use just as you needn't be a computer systems analyst to have the computer do things for you. There are capable staffs available to perform Economic Analyses but, you must initiate their use and consider the results in arriving at your decisions. Resource Management problems coming to you for decision should have been subjected to an economic analysis by your staffs.

Most of the tools and techniques comprising and supporting Economic Analysis are relatively simple they are not sophisticated, esoteric, or far-out and they can be used by people with general as opposed to technical backgrounds and

experience."

It is with these thoughts in mind that we present "The Economic Analysis Handbook."

EDMUND W. EDMONDS. JR.
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Chairman, Defense Economic
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