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The George Washington University Budgetation, A
Group Thesis Prepared by the Following Members
of the 1962 Class of the Navy Graduate Financial
Management Program

Bass, J.A.



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THE
GEORGE WASHINGTON UNIVERSITY

BUDGETATION

A Group Thesis Prepared by the Following Members of
the 1962 Class of the Navy Graduate Financial Management Program

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INTRODUCTION

Were the reader to search for a definition of the term BUDGETATION in any conventional reference, the odds of his success would be indeed remote. It is a term that is offered for purposes of development as a function of Imagination, and expressed by the formula:

BUDGETATION equals BUDGET plus IMAGINATION

Broadly speaking, a budget may be defined as a financial plan. Thus the actual definition of BUDGETATION depends on the quality and quantity of imagination added to the financial plan. In the past the addition of this variable has produced such budget titles as performance, program, and functional. What these terms mean is at best determined by the semantic interpretation placed on them by each person involved with the budget operation. Therefore, it is concluded that BUDGETATION is actually the art of executing a financial plan based on the imagination and objectives of its originator.

Since the end of World War II the art of BUDGETATION in Government has been practiced in an atmosphere of a desire for economy. However, to a great extent the variable, imagination, remained relatively constant and stagnation of the art resulted. In

1960 there appeared on the scene one Charles J. Hitch, writing on the Economics of Defense in the Nuclear Age. He invoked the idea that all military problems are to some extent economic problems in that resources are consumed. It is the purpose of this paper to report in lay terms Mr. Hitch's concept of BUDGETATION with respect to the Department of Defense, and explore the present and future implications of his program relative to organization and administration of that department.

In response to the question, "What is the purpose of the Department of Defense?" the answer is: "The purpose of the Department of Defense is to provide the United States with the military power necessary to defend its national security and to maintain peace and stability in the world."

The Department of Defense is a complex organization with many different functions. It is responsible for the procurement, development, testing, production, and distribution of military equipment, and for the training and support of the armed forces. It also plays a key role in the planning and execution of military operations.

One of the major challenges facing the Department of Defense is the need to control costs. The Department's budget is one of the largest in the federal government, and it is essential to ensure that the Department is able to provide the necessary military power at a reasonable cost. This is where the concept of budgetation comes in. Budgetation is the process of allocating resources to different parts of the organization, and it is essential for ensuring that the Department is able to control costs and maintain its military power.

The Department of Defense has a long history of budgetation, and it has developed a number of different methods for allocating resources. One of the most common methods is the use of the zero-based budgeting (ZBB) process. ZBB is a process in which each department or program must justify its budget request from scratch, rather than simply receiving a percentage increase or decrease from the previous year. This process is designed to ensure that resources are allocated to the most important programs and to eliminate unnecessary spending.

Another method of budgetation is the use of the program budgeting system (PBS). PBS is a process in which resources are allocated to different programs, rather than to different departments or programs. This process is designed to ensure that resources are allocated to the most important programs, and it is also designed to ensure that resources are allocated in a way that is consistent with the Department's overall mission.

The Department of Defense is currently using a combination of these two methods, and it is expected that this combination will continue to be used in the future. The Department's budgetation process is a complex one, and it is essential to ensure that it is able to control costs and maintain its military power. This is the purpose of this paper: to report in lay terms Mr. Hitch's concept of budgetation with respect to the Department of Defense, and to explore the present and future implications of his program relative to organization and administration of that department.

CHAPTER I

OVERVIEW OF BUDGETATION

One change, which I believe will improve my ability to make sound decisions in matters effecting national policies, is the new planning - programing - budgeting process within the Department of Defense that Assistant Secretary of Defense Hitch described to you in detail on July 24. Under this new process, the Secretary of Defense for the first time will have an integrated financial management system specifically oriented to the manner in which he is to make decisions - by program in relation to over-all Department of Defense military missions.*

In making the foregoing statement before the Subcommittee on National Policy Machinery on 7 August 1961, Secretary of Defense McNamara affirmed his faith in Mr. Hitch's concept of budgetation; i.e., the correlation of military and financial planning. This unqualified acceptance of a structure, whatever it might be, requires at least a short biography of the architect.

Charles J. Hitch was born January 9, 1910, in Boonville, Missouri. He received his early education in the public schools of that community and at Kemper Military School where he was graduated from Junior College in 1929. He received his Bachelor of Arts degree from the University of Arizona in 1931. After one year of graduate

study at Harvard, he went to Oxford on a Rhodes scholarship and received his Masters degree from Oxford. During World War II Mr. Hitch served on Mr. Averell Harriman's first lend lease mission to London, 1941-1942, and then in the War Production Board, 1942-1943. He was inducted into the U.S. Army in 1943 and assigned to the Office of Strategic Services. After his discharge as a First Lieutenant in 1945 he served as Chief of the Stabilization Controls Division of the Office of War Mobilization and Reconversion. In 1948 he joined the Rand Corporation, a firm of scientific consultants engaged in government research. Mr. Hitch remained at Rand until he was appointed Assistant Secretary of Defense (Comptroller) by President Kennedy on February 17, 1961. It was while at Rand that Mr. Hitch co-authored the book Economics of Defense in the Nuclear Age which describes the planning, programming and budgeting process embraced by Secretary McNamara.

Although notable improvements in the defense budget structure have been achieved since the end of World War II, they have been made mainly in the field of administration. Appropriation accounts have been reduced in number, comptroller organizations have been established, basic patterns have been developed for budget program and activity accounts, cost based budgeting has been advanced, and financial accounting for material inventories is standard in all services.

These improvements may be attributed to Mr. W.J. McNeil, the first Comptroller of the Department of Defense.

Upon taking office, Mr. Hitch recognized the need for further improvement. This premise is based primarily on the high costs, complexity, and rapidly changing technology of contemporary weapons systems. What systems for what missions have become key decisions around which a majority of the defense program revolves. However, the present system of financial management does not relate costs to weapons systems, tasks, and missions. Its time horizon is too limited, time phased costs of proposed programs are not disclosed, and data relative to cost and effectiveness of alternative programs are not provided.

Mr. Hitch contends that if a financial management system is to fulfill its function of providing management with essential facts and analyses consistent with sound decision making, the system must provide:

- (1) Alternative weapon systems available for each mission.
- (2) Effectiveness of each system relative to the mission to be performed.
- (3) Cost vs. effectiveness over the life cycle of the system.

In his book Mr. Hitch proposes a method of budgetation aimed at providing a system of financial management which provides the aforementioned criteria for sound decision making. His approach is basic in that he recognizes all military problems as involving an economic

factor in at least one respect; i.e., the allocation and expense of resources. This parallels a principle of war -- economy of force. Mr. Hitch contends that these problems must be solved by systematic analysis through the measure of cost vs. effectiveness. If an economy of force is to be achieved it is essential that decisions affecting the various services be made on the basis of roles and missions. In a sense it is intended that this factor should decrease interservice bickering before the public in general and Congress in particular, and stimulate competition for the assignment of missions on the basis of efficiency of operation.

With respect to the last point, it must be noted that though bickering before Congress may be eliminated, a far more perilous situation might develop. In competing for the missions and roles, and the appropriations that go with them, it is conceivable that cost cutting within the individual services could become so extreme as to damage the military effectiveness of the service.

Regardless of its possible shortcomings, Mr. Hitch's theory of correlating the military problem with an economic problem, and his concept of the role of financial management in military decision making has raised the art of budgetation to a new high in a business where there is no profit and loss statement. It is theorized further by the writers of this paper that with a nuclear stalemate as it now exists, economic warfare may be substituted for war as we know it and any measures which conserve resources while maintaining the stalemate are as much a weapon as bombs.

CHAPTER II

A DECISION PROCESS

The purpose of this chapter is to give the reader an idea of how the planning-programing-budgeting process is being carried out in the Department of Defense. We have already seen the recent history which resulted in this new planning-programing-budgeting process being brought to the department. In the third chapter the evolution of budgetation through the history of the country will be discussed. But here we are concerned with how it works now. First, however, let us see from Mr. Hitch's own words why a new system was necessary.

The revolution in military technology since the end of World War II, or even since the end of the Korean war, has had a profound effect on the character of the military program. The great technical complexity of modern-day weapons, their lengthy period of development, their tremendous combat power, and their enormous cost have placed an extraordinary premium on the sound choice of major weapon systems in relation to tasks and missions and our national security objectives. These choices have become, for the top management of the Defense Department, the key decisions around which much of the Defense program revolves.

Yet, it is precisely in this area that the financial management system showed its greatest weakness. It did not facilitate the relating of costs to weapons systems, tasks, and missions. Its time horizon was too limited. It did

not disclose the full time-phased costs of proposed programs. And it did not provide the data needed to assess properly the cost and effectiveness of alternative programs¹

The sharp decision-making tool devised by Mr. Hitch and the Secretary of Defense, Mr. McNamara, does relate cost to weapons systems, tasks, and missions. It gives to top Defense management the information needed to make the most important decisions, the decisions which must be made to determine the major forces and weapons systems which will be used to carry out the missions of defense. This new tool presents information on the available alternatives in terms of their military worth in relation to their cost.² This last sentence is important. Available alternatives, military worth, and cost are all key words or phrases in the planning-programing-budgeting process.

The key phases to the operation of this process are three. They are:

- (1) review of requirements
- (2) formulation and review of programs extending years into the future
- (3) preparing annual budget estimates.

¹Hearings before the Subcommittee on National Policy Machinery of the Committee on Government Operations, U.S. Senate, 87 Congress, 1961, p.1005-1006.

²Ibid.

The first phase, review of requirements, is not a review in the traditional military sense. The studies which made up this review are military-economic studies which compare alternative ways of carrying out national security objectives. The people who make these studies, the Joint Chiefs of Staff, the people in the Office of the Secretary of Defense (OSD), and in the military departments, try to find the alternative which does the most for a given cost or the alternative which attains a particular objective at least cost. The questions these people try to answer are basic ones such as, how many strategic bombers and how many missiles should we have during the next ten years in case we have to destroy priority targets? What kind of military airlift and sealift do we need to meet our various plans and what is the most economical way to get what we need? Should we keep our old ground equipment and fix it up, or should we buy new, or should we hurry up the development of still better hardware? Is the Fleet Rehabilitation and Modernization program the best way to modernize the fleet or are we wasting money that should better be spent on new ship construction?

Some of these questions are complex and are frequently interrelated. To find answers, various research groups in the Department of Defense and in the civilian economy have been called upon. These groups used the newest techniques of information

evaluation in an effort to correlate the many variables that influence the answers to these questions. The studies made have been directed at the most important areas and the information developed has been used in the second phase of the operation of the planning-programing-budgeting decision tool.

The second phase - formulation and review of programs extending years into the future - was assigned to the military departments to carry out, at least the formulation part. The reviewing was done in OSD. Instructions as to how the formulating was to be done were provided by Mr. Hitch and his staff in OSD. These instructions stated that during the second phase - also called the programing phase - cost and effectiveness comparisons would be made, " . . . for the most part using statistical cost estimates and factors rather than the more detailed information supporting the final budget submission."³ These cost and effectiveness comparisons are compiled into program elements and program packages. Program elements are integrated activities, combinations of men, equipment, and installations whose effectiveness can, in some way, be related to national security policy objectives. Program packages are interrelated groups of program elements that are considered together because they support each other or are close substitutes for each other. An example of a program package is

³Memorandum for the Assistant Secretaries (Financial Management) of the Army, Navy, and Air Force from Assistant Secretary of Defense (Comptroller) dated May 13, 1961.

Central War Offensive Forces. The elements in this package, as in every other package, have a common mission or set of purposes which tends to make them fall into a common package. The B-52 bomber, the Atlas Missile and the Fleet Ballistic Missile (FBM) Submarine weapons systems are examples of program elements which go to make up the Central War Offensive Forces program package. There are nine program packages in all:

- I. Central War Offensive Forces
- II. Central War Defensive Forces
- III. General Purpose Forces
- IV. Sea and Airlift Forces
- V. Reserve and National Guard Forces
- VI. R & D (including space)
- VII. Servicewide Support
- VIII. Classified Projects (Top Secret and above)
- IX. DOD

As can be seen these are all important missions, tasks, and functions which must be carried out by the Armed Forces.

Perhaps the use of an example would be helpful to further explain how the program packages and program elements fit into the decision-making concept of the planning-programing-budgeting process. The purpose of the process, to reiterate, is to prepare cost and effectiveness comparisons to show for the available alternatives their military worth in relation to their cost.

Suppose we take a program element which would fall, were it not a fictitious one, in Program Package I, Central War Offensive Forces. The element we will use is one based on a wild dream refinement of a weapons system with which we are familiar. Call it Polaris IXa. This is to be a 6000 mile range, solid fueled missile capable of carrying a 50 megaton warhead. The missile is to be fired from soundless, non-metallic, acoustically non-reflecting submarines cruising 1000 fathoms deep. It is to be capable of following a non-ballistic flight path (a zig-zag course in flight) and is to be able to hit consistently within one quarter mile of a target. The effectiveness of such a weapons system would be high. But how about the cost?

The concept of cost as it applies to a program element means complete cost. It includes research and development costs, procurement or investment costs (missiles, submarines, repair facilities, replenishment bases, etc.), and maintenance and operation costs of the entire weapons system for at least five years into the future and preferably for its entire effective life.

The cost projection might look like Figure 1. The total cost would be the sum of the costs represented by the three curves on the chart. The research and development costs are shown as their time schedule would have them occur. The same is true for procurement costs - the second curve - and the operating costs - the third curve.

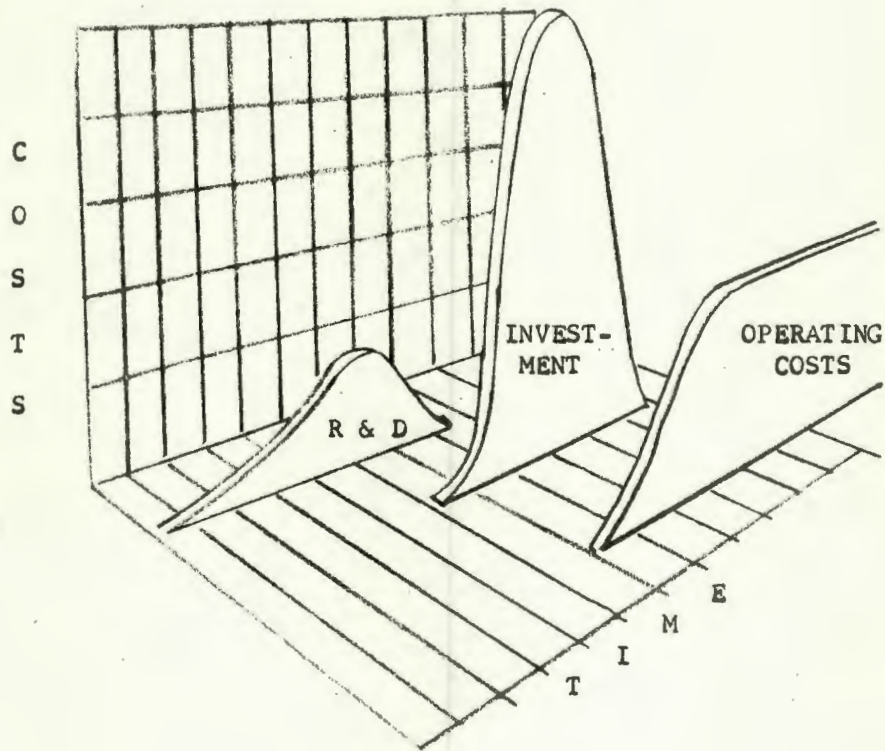
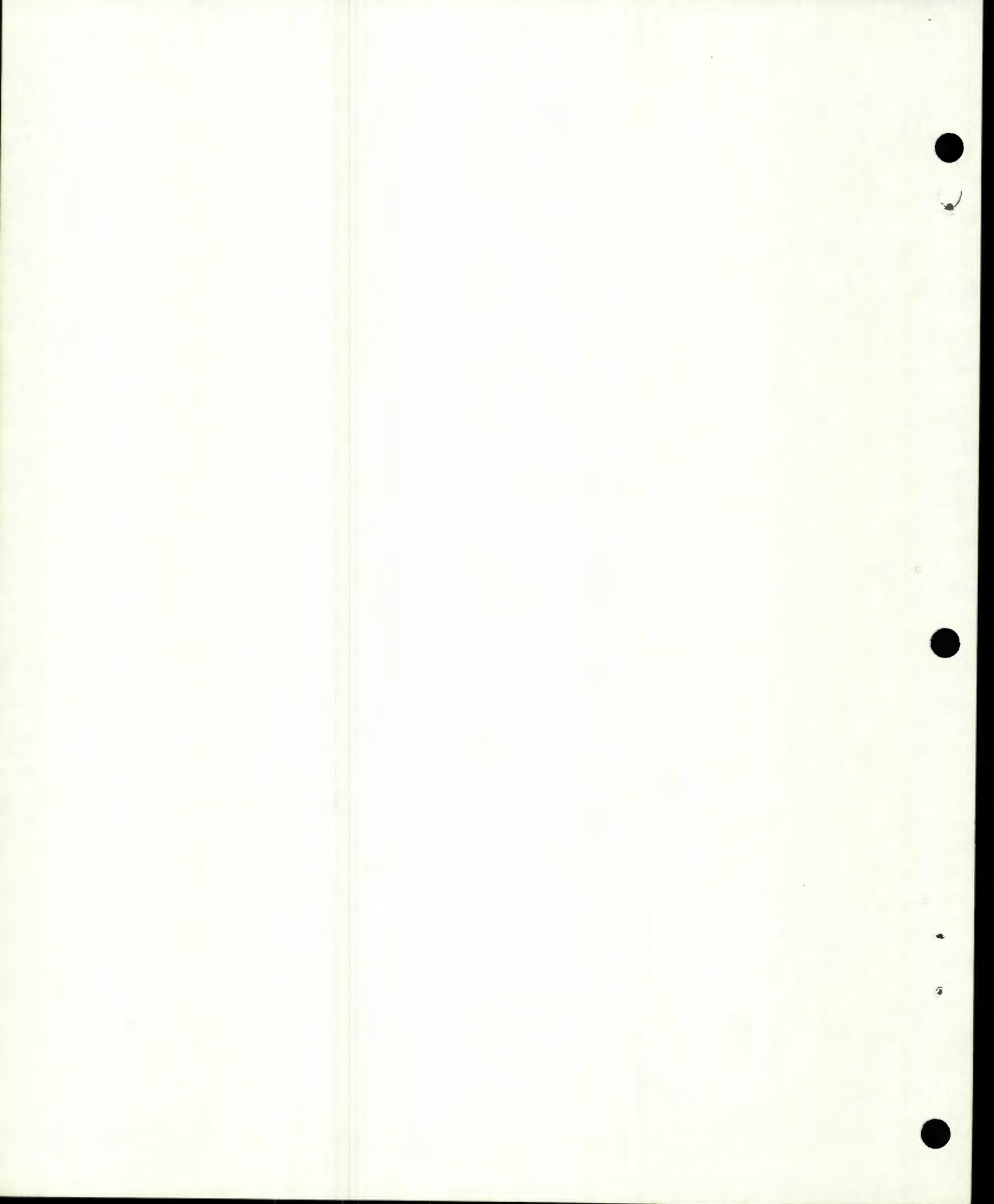


Figure 1

Program Element Cost Projection

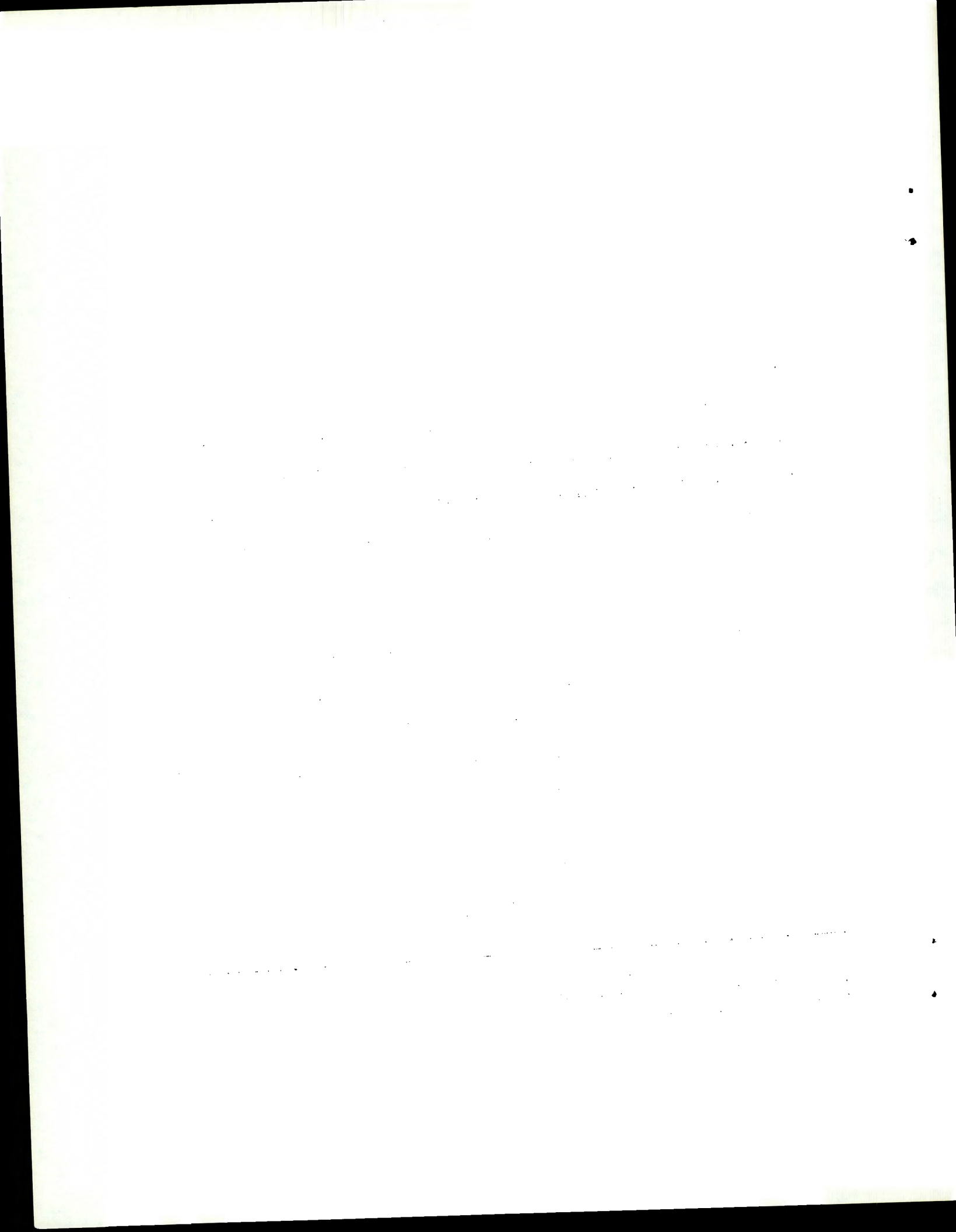


The program element would therefore show the ultimate cumulative total cost of the system for its effective life.

If a Polaris IXa were priced this way, if similar information were available for an element we might call Minuteman "70", and if measures of relative effectiveness⁴ of these weapons systems were available, a decision could be made about which element to buy. It is apparent that this kind of decision tool, this planning-programing-budgeting concept, provides an insight into the complex military-economic decisions facing top Defense management never before available. The information is arranged so it can be studied and evaluated; it is arranged so that mission capabilities can be compared.

It happens that the program elements and program packages are arranged and assembled so that the information about the major portion of the Navy is included in Program Package III, General Purpose Forces. All of the estimates for combatant ships and support vessels are in this program package, except for the strategic-missile-firing submarines, which are in Package I Central War Offensive Forces, radar warning picket ships in Central War Defensive Forces, and the Military Sea Transportation ships, which are in the Sea and Airlift package (Package IV). All the estimates for the

⁴Relative effectiveness factors are prepared based on studies by the Joint Chiefs of Staff, OSD, and research groups such as the Weapons Evaluation Group.



various fleet aircraft units except for airborne early warning squadrons are in Program Package III also, as are those for all Marine Corps units including the Marine aircraft wings.

Some of the Navy and Marine Corps costs are in Program Package VII, Servicewide Support. This is a catchall or "all other" package with elements such as recruit, technical, and professional training, supply and maintenance system overhead, medical support, and so on.

Returning now to the list of key phrases of the planning-programing-budgeting process, we see that we have covered the first, review of requirements, and part of the second, the formulation of programs. But the second phase also includes review of the programs. This function has been done by OSD and Mr. McNamara himself. With the elements of a program package arrayed before him on a number of large briefing panel boards, Mr. McNamara studies the information and decides which elements will be included in the package and which will be rejected. He decides how much of each element there will be, if any. He balances and weighs all the information about all the weapons systems in one place, in one format, at one time --- and he decides.

The military departments are informed of the decisions and are told to proceed accordingly with the third phase of the planning-programing-budgeting process -- preparing the annual budget estimates. The reader will recall that the cost estimates prepared for the program

elements were made ". . . for the most part using statistical cost estimates and factors . . ." and that the final budget would contain more detailed information. It may also have been apparent as the explanation of the previous phase, the formulation phase, unfolded that the cost estimates were not being arranged so that they would fit easily into the existing appropriation structure. However, all the costs were included in the elements. The research and development costs - the costs of developing a new capacity to the point where it is ready for operational use - these were included. So were the investment costs, the one-time or initial outlays required beyond the development phase to introduce a new capability into operational use. And the operating costs, the costs to maintain and operate the capability year by year throughout its projected operational life were also in the elements. The trick is to put the element together in the first place with codes on each item of cost. The codes indicate that the cost is R & D or Investment or O & M. They also tell the year or years in which the cost will occur, the appropriation to which the cost belongs, the element in which the cost belongs and so on. When the item costs are assembled into an element - and this assembling is done with a computer - the element code is used. When the elements are sent back to the departments for budget preparation, the appropriation code is used to break out the costs in traditional appropriation structure form.

For instance, in preparing the cost estimates for the program element Destroyers DDR (radar picket destroyers), the Bureau of Naval Weapons (BuWeps) may have included an item of cost for new search radar. This separate and distinct cost item, procurement of new search radar for a DDR, would be punched out on an automatic data processing (ADP) card. That card would be coded to the program element Destroyers DDR, to the year in which procurement would be made, to the maintenance and operations part of the element (but not for the original investment), and to the procurement appropriation. For the installation cost of this same radar the Bureau of Ships (BuSHIPS) would prepare another card coded to the same program element, to the year installation would be made, to the maintenance and operations part of the element, and to the Operation and Maintenance, Navy appropriation for the proper year. These cards, together with thousands of others, when processed through ADP equipment provide the kind of summary information needed to prepare budgets as well as to show total estimated costs of individual program elements and program packages.

This then is the planning-programing-budgeting process as it has been used in the Department of Defense for developing the fiscal year 1963 budget. One of the more significant features of this process which has emerged to date is that in making the decisions on the program packages, the Secretary of Defense does not consider

how big a slice of the Defense appropriations pie to give to the Navy or the Army or the Air Force. He decides how much of our national resources will be spent on a program element. Polaris does not compete in the Navy with Anti-Submarine Warfare. Polaris competes in Program Package I, Central War Offense Forces, with the B-52 and Atlas and Minuteman. The shape of the Navy of the future depends on the elements selected by the Secretary of Defense.

This new process turns the harsh light of effectiveness, of cost, and of reality on the plans and on the programs of all the services. Vannevar Bush said of military planning in 1949, "This is not planning; it is a grab bag. It will lead us to waste our substance."⁵ It appears that after twelve years the grab bag is finally being closed. There can be little doubt that this new decision process is as the Comptroller of the Bureau of Ships has said, ". . . a step forward such as has not been made in a long, long time."⁶

⁵ Vannevar Bush, Modern Arms and Free Men (New York: Simon & Schuster, Inc., 1949), p. 251.

⁶ Captain Frank Jones, USN, BUSHIPS Comptroller, Talk to Navy Postgraduate Comptrollership Program, Geo. Wash. Univ., October 26, 1961.

CHAPTER III

EVOLUTIONARY CONCEPT

The impact of Mr. Hitch, his book, and his program packages on the Department of Defense budgeteers was that of a bombshell! How radical his ideas and thoughts must have seemed when first announced! But were they as revolutionary as they actually appeared? Perhaps a partial answer can be found in Mr. Hitch's testimony before the Subcommittee on National Policy Machinery on July 24, 1961.¹

In his prepared statement, Mr. Hitch said that he wanted to make clear that the Department of Defense was not starting the task of improving its planning-programing-budgeting process from "scratch." He then outlined many advances in the Defense Department's budgetary process that had been achieved by his predecessor, Mr. W.J. McNeil, the first Comptroller of the Department of Defense. Could Mr. Hitch have gone even farther back in time and shown that all advances in the budgetary process, including his own, are a result of a logical building block approach to the ideal?

¹ Senate Subcommittee on National Policy Machinery, Hearings, 1st Sess., 1961, p. 1005.

Unlike Mr. Hitch we shall, in this study, start from "scratch." In so doing, we shall determine whether or not program packaging is a revolutionary idea in budgeting or a logical step in the evolutionary process of improving the executive budget.

The first approach to budgeting in the United States was the establishment of the Treasury Department by the Treasury Act of 1789.² As stated, this act only approached budgeting; it did not make any provisions for an executive budget. The act did require the Secretary of the Treasury " . . . to prepare and report estimates of the public revenues, and the public expenditures" These estimates, combined into what was called a "Book of Estimates," were far removed from what we know today as the executive budget. These estimates

were not compiled in accordance with any one principle, or in such a way that their significance could be clearly seen. There was no budgetary message; no proper scheme of summary, analytical, and comparative tables³ expenditures were not considered in connection with revenues.

From 1789 to 1796 the executive branch virtually administered the finances of the country single-handedly. With such a concentration of financial power in the executive department, it was only a matter of time before Congress would assert its power and establish firmer fiscal controls over the executive branch.

²1 Stat. 65.

³A.E. Buck, Public Budgeting, (New York: Harper & Brothers, 1929), p.17.

In 1796, the House ended the executive direction of the government's finances by appointing a Committee on Ways and Means. This Committee was made a permanent standing committee in 1802 and functioned until 1865 with both revenue and appropriation authority. During this time, the Secretary of the Treasury continued to present his annual report to Congress and also to submit a Book of Estimates setting forth the expenditure requirements of the various departments and agencies. His function, however, was primarily clerical.

The concentration of both revenue and appropriation authority in the Ways and Means Committee made possible a comprehensive view of the state of the nation's finances. In 1865, largely due to the volume of work created by the Civil War, the House established a separate Appropriations Committee and gave it the responsibility of overseeing appropriations measures. Thus, the unity of view that had previously prevailed when the Ways and Means Committee had both revenue and appropriation authority was lost and has yet to be regained.

When President Taft took office in 1909, the government was operating at a substantial deficit. This deficit was largely caused by the financial panic of 1907, the outlays occasioned by the Spanish-American War, and the increased expenditures of a growing nation. Mounting concern over the state of federal finances led President Taft, in 1910, to appoint the Commission on Economy and

Efficiency "to inquire into the methods of transacting the public business."

Two years of broad and detailed investigation by the Commission on Economy and Efficiency produced the first comprehensive study of national budgeting in this country and provided the main foundation for subsequent thinking on the subject.⁴ The Commission's report, The Need for a National Budget, was submitted on June 27, 1912.⁵ Of the five main proposals made by the Commission, the most important from the standpoint of this study was that of recommending a functional classification for the expenditure side of the budget. That is, the Commission recommended that the Congress be able to consider the budget in terms of work to be done or services to be performed rather than solely in terms of things to be acquired. These new functional classifications, however, were not to be substitutes for, but additions to, the traditional classifications by organization units and objects. Here then, some fifty years before Hitch, we see a recommendation for a type of program budgeting. And interestingly enough, we also see the identical plan by both the Commission and Mr. Hitch to present the budget in traditional appropriations format and also by functions or programs.

⁴Arthur Smithies, The Budgetary Process in the United States, (New York: McGraw-Hill Book Company, Inc., 1955), p. 68.

⁵House Doc. 854, 62nd Cong., 2 Sess.

Unfortunately for the development of the budget system, the political climate in 1912 was not favorable either to President Taft or to any of his budgetary proposals. Consequently, Congress took no action on the Commission's recommendations, in fact, the report was not even considered by the House Appropriations Committee to which it had been referred.⁶ In spite of the fact that no immediate legislation resulted from the Commission's work, the prestige of the Commission and the strong backing of the President focused national attention on the subject of budgeting. In a tangible sense, the work of the Commission contributed greatly to the eventual passage of the Budget and Accounting Act in 1921.⁷

This 1921 Act provided for a national budget system largely as was proposed by the Taft Commission on Economy and Efficiency. The budget required by the Act included provisions for a comprehensive treatment of both revenue and expenditure. The expenditure side of the budget, however, was cast solely in the traditional appropriations format and did not follow the Taft Commission's recommendation for an additional functional classification.

The first Commission on Organization of the Executive Branch of the Government was created by Public Law 162, 80th Congress, in response to the recognition of the need for further improvement in

⁶William F. Willoughby, The Problem of a National Budget, (New York: D. Appleton & Co., 1918), pp. 20-23.

⁷Jesse Burkhead, Government Budgeting, (New York: John Wiley & Sons, Inc., 1956), p. 21.

the executive branch.⁸ This Commission, popularly called the first Hoover Commission, concerned itself chiefly with the structural reorganization of government departments, agencies, and bureaus, and with their relations to each other. The Commission's first recommendation under the heading, "Reform of the Budget," called for the adoption of a performance budget, i.e., a budget based on functions, activities, and projects.⁹ Thus, in 1949, the first Hoover Commission repeated the same recommendation made in 1912 by the Taft Commission on Economy and Efficiency.

In addition to the performance budget recommendation, the Commission recommended a general revision of the Government's complicated appropriation structure with the object of simplification of presentation, consolidation of certain appropriations in broader categories to eliminate itemization (which often obscures the totals), and merging of patchwork appropriations procedures into a rational, uniform, easily understandable pattern.¹⁰

The first Hoover Commission's report on the national security organization included the recommendation that a performance budget be adopted by the Department of Defense.¹¹ This recommendation was

⁸Approved July 7, 1947, expired June 12, 1949.

⁹Hoover Commission, Hoover Commission Report, (New York: McGraw-Hill, Inc., n.d.), p. 36.

¹⁰Ibid., pp. 38-39.

¹¹Ibid., p. 192.

put into effect by the Amendments of 1949 to the National Security Act of 1947. Under the authority of the Amendments, the appropriation structure of the Departments of Army and Navy was completely revised. The newly created Department of the Air Force (1947) had its appropriation structure cast initially in the pattern developed for the Departments of the Army and Navy.¹² The present uniform appropriation-account pattern for the three military departments and Office of Secretary of Defense groups all appropriations into five categories:

- (1) Military Personnel
- (2) Operations and Maintenance
- (3) Research, Development, Test, and Evaluation
- (4) Procurement
- (5) Military Construction

As significant as this streamlining of appropriations was, examination of the foregoing five categories shows that any budget prepared on the basis of these categories would not be a true performance budget. Although called a performance budget, there is no identification of functions, activities, or projects as called for in the first Hoover Commission Report. Regardless of budgetary

¹²U.S. Congress, Senate, Committee on Government Operations, Financial Management in the Federal Government, 87th Cong., 1st Sess., 1961, pp. 168-169.

semantics, the National Security Act Amendments of 1949 did provide for increased centralization of authority and direction of budgetary matters in the Office of the Secretary of Defense.¹³

Although the Department of Defense's performance budget was a striking improvement in the comprehensibility of the defense budget, disenchantment with so-called performance budgeting was not long in coming from both congressional and academic sources. Congressional dissatisfaction can best be demonstrated by reciting Representative Taber's feelings on the subject: "Do you have anything in the bill that would repeal a provision like this performance budget, which is costing the United States at least \$5 billion a year at the present time?"¹⁴ Representing the academic side, Smithies, in 1955, devoted a chapter in his book to the necessity and desirability of program budgeting in the Defense Department.¹⁵ In this chapter, Smithies looked upon the performance budget of the Department of Defense as inadequate, and indicated that the next evolutionary step in defense budgeting was the supplanting of the performance budget by a program budget. Smithies' disapproval of the existing

¹³George A. Lincoln, et al, Economics of National Security, (Englewood Cliffs: Prentice-Hall, Inc., 1954), p. 408.

¹⁴Hearings on Department of Defense and Related Independent Agencies Appropriations for 1953, Part 2, p. 140.

¹⁵Smithies, Chapter XI, pp. 229-277.

performance budget was basically the fact that, in spite of the name, it was not a performance budget. In using the term, "program budget," he was essentially using a new term to describe a true performance budget of the type originally proposed by the first Hoover Commission.

Interestingly enough, Smithies gave credit in the preface to The Budgetary Process in the United States to several gentlemen of the RAND Corporation as having substantially influenced the defense chapters of his book in both major and minor respects. One of the gentlemen named was Charles Hitch. It is useless to speculate on whether Smithies influenced Hitch, or vice versa, with respect to program budgeting. Regardless, we see in Smithies' book the concept of a true performance budget, called a program budget, six years before the advent of Mr. Hitch and his program budget in the Department of Defense.

We must conclude that the introduction of program packages into the Defense Department in March, 1961, was not revolutionary; rather, it was the implementation of the true performance budget concept that had been proposed as early as 1912 by the Taft Commission, restated by the first Hoover Commission in 1949, and that had been considered in public print years before as the next step in the evolution of a satisfactory budget making process in the Defense Department.

CHAPTER IV

BUDGETING, ACCOUNTING AND REPORTING

The preceding chapters covered the evolution of the budget and the Hitch "program package." This chapter will present some of the alternatives in budgeting, accounting and reporting in the Department of Defense which have been implemented and which could be implemented to carry out the program package concept.

BUDGETING

The three services are reporting their budget requirements for funds by three breakdowns. The first and oldest of these budget breakdowns is by appropriation.¹

This is the breakdown which the legislative branch has historically used in checking the past efficiency and future requirements of the three services, and it's the basis for granting funds.

¹This has been generally called a breakdown by performance but is actually a breakdown by object of expenditure; such as, Military Personnel, Research and Development, etc. Program Budgeting: Theory and Practice, Chapter IV "Military Performance Budgets" by Frederick C. Mosher.

The second budget breakdown is by category.² The primary categories of the defense classification are:

Military Personnel Costs

Maintenance and Operations

Major Procurement and Production Costs

Acquisition and Construction of Real Property

Civilian Components

Research and Development

Industrial Mobilization

Establishment-Wide Activities

The Department of Defense established the requirement for a breakdown by category in 1950, in order to enable accurate comparison of past efficiency in the use of funds with future needs of the three services.

The third budget breakdown is by Hitch's nine program packages.³ The requirement for a program package budget was first effected for fiscal 1963, and was established to promote efficiency and economy by program capability.

The budget breakdown by appropriation has been changing since 1950 when the budget breakdown by category was required until at the present date the two are almost identical.⁴

² Ibid., pg.87.

³ Supra, Chapter II, pg.10.

⁴ Program Budgeting: Theory and Practice, pg.88.

When these two methods of budget reporting are so similar, doesn't it seem logical that one can be eliminated? The budget breakdown by category requirement was established by the Department of Defense. Isn't it probable that this budget breakdown could be discontinued now that the Department of Defense also requires a budget breakdown by program package? The authors believe the requirement for the budget breakdown by category will be eliminated in the fiscal 1964 budget.

Even if the budget breakdown by category is eliminated we still have two budgets to prepare. What are the probabilities of only preparing the program package budget? Why can't appropriations be made on the basis of program packages? Public Law 84-863 directs the head of each agency to take whatever action is necessary to achieve (1) consistency in accounting and budget classification, (2) synchronization between these classifications and organizational structure, and (3) support of budget justification by information on performance and program costs. When Congress has expressed the need for program costs, it appears they would welcome an appropriation breakdown by program; however, Mr. Hitch has stated that his present plan is to present the budget in both ways (program and appropriation).⁵

⁵Hearings before the Subcommittee on National Policy Machinery of the Committee on Government Operations, U.S. Senate, 87 Congress, 1961, pg.1019.

The second Hoover Commission in its report on Budget and Accounting stated that for management purposes, cost operating budgets be used to determine fund allocations,⁶ and that such budgets should be supplemented by periodic reports. The program package budget will supply management with the necessary information for fund allocation.⁷ When the program package budget meets the requirements specified by so many varied sources, isn't it logical that the only method of budget reporting will soon be that by program package?

ACCOUNTING

Accounting must be compatible with budgeting in order that a comparison of actual costs to planned costs can be made. The present obligation-expenditure accounting used by the services gives a good comparison of commitments made against authorized appropriations but does not show the costs of carrying out a program. Accounting procedures should be changed so that records are maintained by program package in order that expenditures can be compared to the budget plan.

⁶A cost type budget has been defined as one which identifies, in terms of the goods and services consumed by each activity, the cost of the program planned by the agency. Financial Management in the Federal Government prepared by the staff of the Committee on Government Operations, United States Senate, pg.96.

⁷Hearings before the Subcommittee on National Policy Machinery of the Committee on Government Operations, U.S. Senate, 87 Congress, 1961. Testimony of the Secretary of Defense on 7 August 1961.

The authors see three possible plans of establishing accounting procedures that will furnish the required information (1) complete accrual accounting,⁸ (2) accrual accounting at Bureau level only and (3) modified obligation-expenditure accounting.

The accrual accounting system will give the most accurate cost of the program package operation. It would record the cost of all services and material used. The unit⁹ would need an accounting force to record costs of supply support, communication services, repair and overhaul, military and civilian pay, accrued leave, etc. The experienced officer, enlisted and civilian personnel in the Department of Defense could form the nucleus of the work force required. However, it is questionable if the accuracy of complete accrual accounting would justify the greater expense of this system over either limiting accrual accounting to the Bureau level or a modified obligation-expenditure accounting.

Another disadvantage of accrual accounting is that it requires commitment of funds at the time material and services are used and not at the time the order for material or services are made. In this way, for an example, five or six years ago your predecessor could have

⁸An accrual accounting system is one which gives recognition to the receipt of goods and services and the consumption or use of resources and reflects the assets and liabilities. Financial Management in the Federal Government prepared by the staff of the Committee on Government Operations, United States Senate, pg.96.

⁹A unit is defined for the purpose of this thesis as a logical subdivision of an element, an example would be an individual destroyer.

committed you to pay for material received and used today. The bills would have to be paid out of the current year's appropriation. The present obligation-expenditure accounting requires the party placing the order for final use material or services to obligate funds so that these funds are available for expenditure when the material or service is received. In this way a predecessor of five or six years ago is required to set aside funds from his appropriation so that when the material is received, there will be funds available to pay for it.

The second method of accounting mentioned--accrual accounting at Bureau level only--will give fairly accurate yearly program cost, although not as accurate as complete accrual accounting. The Bureaus or equivalent, will establish an average accrual cost for each unit in an element. As an example, a destroyer DDR operating in Program Package III, General Purpose Forces, would have its cost of repair and overhaul determined by the Bureau of Ships as an average for all ships in this category. The Bureau of Ships would have obtained this information from reports from shipyards, repair ships, and tenders. The Bureau of Personnel would compute a cost for military personnel from the average complement aboard this type of ship, taking into consideration accrued leave, travel costs, etc. The accrual accounting would be computed for the various elements at the Bureau level. A total of the costs of elements assigned to a program package would furnish the total cost of the program.

The third method of accounting which the authors consider feasible is a modified version of the present obligation-expenditure accounting. The element costs would be obtained through a method of statistical sampling. As an example, the Bureau of Personnel would obtain a report from five destroyers DDR once each quarter regarding personnel on board. From this report they would compute payroll costs, accrued leave, travel expenses, etc. This Bureau would then have available from this information the statistical average cost of military personnel for the destroyer DDR element. All the other Bureaus would obtain similar information for their area of responsibility until the total cost of the element was available. Personnel of the individual unit would not have to change their accounting procedures under this system or a system in which accrual accounting is done at the Bureau level.

REPORTING

We have stated that we thought it logical that accounting would not change materially at the unit level. Would it follow, then, that reporting would remain unchanged as well? We believe not. Reports from the unit will have to justify more fully that the greatest amount of return of material and services are obtained for each dollar expended. The past policy of staying within monetary limitations will

now be changed to one of obtaining maximum efficiency and economy. The reporting procedure will not emphasize how much of the funds were expended but rather how much was accomplished for each dollar spent.

SUMMARY

The authors believe that a financial management organization which will fully meet the Secretary of Defense's requirements for program package accounting and reporting can be established with a minimum of accounting changes in the field. The expenditure accounts will need minor changes to record the applicable program package and will require a somewhat greater attention to detail. The appropriation structure will remain unchanged at present with the hope that eventually the appropriation and program package will coincide. The cost of a program will be computed over the life of that program including (1) research and development (2) acquisition of the initial material, upkeep of the material, replacement of material, and modification and (3) personnel and support costs of operation. When the life of the program is the basis of computing costs, the determination of expenditure of funds for material at the time of placing an order (obligation-expenditure accounting) or expenditure of funds at actual time of use of material (accrual accounting) should be determined on the basis of which system requires the least accounting and expenditure of funds for record keeping. The authors feel that complete accrual

accounting will definitely increase costs due to the greater requirement for records. Mr. Hitch has repeatedly expressed his desire for the greatest possible return on the dollar expended; therefore, we feel that either the present system of obligation-expenditure accounting or of accrual accounting at Bureau level only will be the ultimate policy of the Department of Defense.

The adoption of the program concept allows the executive branch (Defense Department) to select the weapon or weapons that will give the country the maximum return in offense, defense or support for each dollar spent. Under the present appropriation accounting system corrective action can only be taken to keep funds within legal limits. Under program accounting corrective action can be taken to improve efficiency by determining the plan which will give maximum return for a specified amount and/or the required result at the least possible cost. It further will give a long range plan to which can be compared the actual costs given by the reporting structure with the probability of taking corrective action when still timely.

CHAPTER V

BUDGETATION AND ORGANIZATION

The objectives of this paper were to paraphrase the Hitch "planning-programing-budgeting concept in lay terms, to examine it in its proper historical perspective, and to project where this innovation which melds military planning and financial management might be leading us in the areas of budgeting and organization.

The preceding chapter dealt with the impact this system would have upon accounting and reporting. It will be noted that our thesis is built upon the premise that the Hitch concept, which was initially developed as a decision-making tool,¹ would in a short period of time become the foundation of the DOD financial management system.

The purpose of this chapter is to examine what logical implications the adoption of the Hitch concept as the foundation of the DOD financial management system could have upon organization within the Department of Defense.

¹U.S. Senate, Subcommittee on National Policy Machinery of the Committee on Government Operations, Hearings, Organizing for National Security, 87th Cong. 1st Sess., 1961. Testimony of SecDef McNama on 7 Aug.

This thought apparently was of concern to the members of the Senate Subcommittee on National Policy Machinery when Mr. Hitch testified on 24 July 1961. Senator Jackson (D., Wash.), the ranking member of the Subcommittee, asked "If the organization of the program-packages along these lines makes sense for reasons of budget and decision-making, is it not possible that they make sense for the actual organization of the forces?" Mr. Hitch replied,

There will be no change. I am not saying there will be no organizational changes in the future, but we don't at present envision any change in this respect. Certainly, ideally, the way you program and budget should parallel the way you are organized; they are interrelated. But the two do not have to mesh perfectly.

Later on in this same testimony, Mr. Hitch stated that it is possible that this approach would serve to reduce "some of the Service identifications in some of the areas." Again in this testimony, Mr. Hitch averred to Senator Jackson that there may be some organizational implications involved in connection with this approach in formulating the budget, and added that "In general, the Secretary said, when he took the job, that he wanted to wait at least a year before he made up his mind about the organizational problems of the Department. I don't want to anticipate him."

It would be presumptuous to conclude other than as Mr. Hitch has testified, that there are no immediate plans for any military reorganization within the DOD. It is the thesis of this paper,

however, as has been pointed out in the preceding chapters, that changes in budgeting, accounting, and reporting systems, and now organization are evolutionary. They are the product of progress.

Examine the trend in organization. Between World War I and World War II, there were over fifty bills introduced in Congress to unify the Services in one form or another.² In fact, on 20 June 1941, the Navy General Board unanimously recommended that 'unification' take place - a single department with a Joint Chiefs of Staff composed of two officers, including one air officer, from each Department.³ This was unsuccessful. At the outbreak of World War II, the first real unification came when the British and American Chiefs of Staff were combined. Subsequently, unified commands were formed in the field, such as, MacArthur (South West Pacific) and Nimitz (Pacific Ocean Area) in the Pacific, and Eisenhower in Europe. Following WW II, unification of forces in the field was made permanent through the National Security Act of 1947, and all its subsequent amendments. The objective was complete unification of forces in the field and centralized strategic direction from Washington. At this writing, the

²T.W. Stanley, American Defense and National Security (Washington: Public Affairs Press, 1956), p.68.

³Ibid., p.70.

Unified and Specified Commands are: European, Atlantic, Pacific, Alaskan, Caribbean, Continental Air Defense, Strategic Air Command, and Eastern-Atlantic-Mediterranean.⁴

The creation of the Defense Communications and Defense Intelligence Agencies were consistent with this trend. Probably even greater significance can be attached to the recent establishment of the Defense Supply Agency. The particular importance of this latest change is the similarity in organizational impact between it and the DOD Reorganization Act of 1958, which abolished the roles of the Service Secretaries as Executive Agents in the operational chain of command. For example, in the Pacific area where the Unified Commander is Navy, prior to 1958, the Secretary of the Navy had been in the operational chain of command between the Joint Chiefs of Staff and the Unified Commander, CINCPAC. The objective of the Reorganization Act of 1958, was to streamline the chain of command and shorten the lines of communication. We do not take issue with this change. But rather, we highlight these two changes as indicative of the decreasing roles being played by the individual service departments.

⁴Col. J.D. Nicholas USAF, Col.G.B. Pickett USA, and Capt. W.O. Spears, Jr., USN, The Joint and Combined Staff Officer's Manual (Harrisburg: The Stackpole Company, 1959), p.18.

This briefly traces the happenings of the past and we believe, identifies the current trend in organizational development. This has been a relatively simple task. A more difficult task is this - if these are the "effects" of the trend, what is the "cause"? What is the driving force that brings about changes? Why do we alter systems? Why have there been so many reorganizations within the DOD? The immediate answer is "improvement." But more deeply, improvement that can be identified with "economy and efficiency." These are the magic words. This is the banner under which changes are heralded.

Obviously, we believe that "economy and efficiency" is the force that provides the impetus to change. And we will examine this force more objectively. First, however, in the interests of fairness, we must present the viewpoint of those who perceive dangers along this route.

These groups have argued that too much concern for "economy and efficiency" introduces an unnecessary degree of caution which can narrow visions of growth potential and result in a failure to reach attainable goals. This philosophy translated into a military situation can be dangerous. They point out that the greatest periods of growth this country has known were made during times when "economy and efficiency" were not paramount considerations. They contend that "economy and efficiency" carried to the ultimate in planning and

budgeting would result in programs, projects, and activities being allowed just "enough" and not one unit more. This "enough" could be men, money, or materials. But given this condition, how much latitude is allowed for individual initiative? And what is the probability that this calculated "enough" is really enough? These are thoughts worthy of serious reflection.

These groups point to a specific area of concern in the Hitch program. The Services are to compete for roles and missions that now overlap. The criteria are to be relative cost and military effectiveness. They contend that the Services will be budgeting unrealistically to gain competitive assignments. This can only lead to "cutting costs" - which means a reduced quality of hardware, skimping on service, and a performance capability that is less than optimum. Further, once a Service has an exclusive role assignment, there will be no competition among the Services. What will happen to costs then? Are we being penny-wise and pound foolish?

To climax this balanced point of view approach, the economic facts of life must not be overlooked. Mr. Hitch wrote that "economic stability should not dictate defense policies."⁵ What is economic stability? How accurate are our economic forecasts? How valid are

⁵C.J. Hitch and R.N. McKean, The Economics of Defense in the Nuclear Age (Cambridge, Mass: Harvard University Press, 1960)

the assumptions? Are economic factors considered in formulating alliances and international commitments, and other features of national policy? This paper will not examine these questions. They are pointed out to indicate that these are some of the factors that determine how much of our national resources shall be allocated to defense.

Whether these allocations of resources are too much or too little is another matter, the fact remains however, that these decisions bring into being forces that shape the evolutionary trend in organizational development. As defense expenditures require more and more of the national income, measures are taken in the form of "economy and efficiency" to obtain more defense for the appropriated dollar. This appears logical. However, it also presents something of a paradox if the view of too much "economy and efficiency" is detrimental to the national welfare is accepted.

With this point of departure, let us examine this force of "economy and efficiency" more closely. Although it has undoubtedly been a force for many years, it came foremost to the public attention with the Commission on Economy and Efficiency during the administration of President Taft. Since that time, many governmental reforms in budgeting and organization have been heralded under the banner of "economy and efficiency." This is an objective that cannot logically be argued against.

We predict that this will be the battle cry for greater and greater unification within the Department of Defense.

We have identified some of the recent organizational changes that have been implemented because of increased economies and efficiencies. Now let us examine some of the other areas that could logically be exploited under this same technique. Consider the following as examples. Why is it necessary to have Navy and Army hospitals in the same general area? Cannot a doctor regardless of service treat a patient regardless of service? It has been done. Why is it necessary to have so many separate service schools teaching approximately the same thing? Does an Army cook learn how to prepare meat different from a Navy cook? Why maintain separate service recruiting offices in the same post offices all over the country? Cannot one service representative handle the recruiting details and permit the applicant to elect the service of his choice? What is so different about civil engineering problems in the different services? These are but a few of the many questions that could be asked and they all logically indicate areas where gains in the form of "economy and efficiency" can be achieved through greater unification.

We should be quick to recognize that these "gains" are all in the area of logistics. Recall that the functions of logistics are identified as: Supply, Medical Services, Transportation, Base

Development, Personnel, and Maintenance and Modification.⁶ Specific inroads towards greater centralization have already been made in the fields of Supply and Transportation through Single Manager assignments.

But what does all this have to do with the Hitch concept? These projections of evolutionary development in organization have no specific relationship with the Hitch "planned-program-package." The illustrations were made to support the thesis that these projections are evolutionary. They would have undoubtedly come into being whether or not Mr. Hitch ever became the DOD Comptroller.

If we can assume that each organizational change that has been formalized and instituted, is a building block which in turn shapes and influences the trends in organization, then what impact will the Hitch concept per se have upon the organizational trend?

In the second chapter, the specific program-packages in the Hitch concept were identified. To reflect upon these for a moment, it is apparent that the first three packages isolate the "line" or operating forces. The remainder of the program-packages could be identified as "supporting" forces. These are the Sealift and Airlift Forces, Reserve and National Guard Forces, Research and Development, Servicewide Support, Classified Projects, and DOD. Because of the

⁶U.S. Naval War College, Basic Logistic Considerations, July 1961, pp. 1-7.

haste in implementing this Hitch concept, many of the assignments to these packages were arbitrary. It is suspected that this structure is not rigid and will be subject to many modifications - some possibly before the preparation of budget estimates for the fiscal year 1964. Mr. Hitch stated that there will be a continuing task of adjusting the list to reflect changes in the forces and programs, as well as in plans, concepts, and organization.⁷

With this in mind, what changes could be in the offing? One of the basic objectives of the Hitch concept is to cost-out military tasks and missions in relation to military effectiveness. Notice that the first three packages are roughly divided into the functional areas of strategic offensive, defensive, and conventional forces respectively. Further notice that many elements of the last six packages exist only to support directly the first three forces or packages. Therefore, it appears reasonable that these elements should be accounted for within the program-package they support.

For example, the fifth package - Reserve and National Guard Forces - is broken into elements according to Service and within each Service, further broken according to which of the packages they support.⁸ Here and in other "supporting" packages where the elements

⁷Senate Subcommittee on National Policy Machinery, Hearings, 1st Sess., 1961, pg.1009.

⁸Ibid., pg.1009

can be specifically identified with a major mission package, these elements can and probably will be shifted to those packages. Concerted efforts are particularly underway to identify those elements of package seven - Servicewide Support - which can be ascribed to the other packages, especially to the major mission packages.⁹

Can this be correlated with the trend toward a centralized logistics organization developed earlier in this chapter? Consider as a possible change in the forces and programs alluded to by Mr. Hitch, that the nine program packages be reduced to the first three functional force packages - plus one to be added, the Logistics Force. (Note that this would not be the often discussed fourth service, but another Unified Command). These four forces would be: the Central War Offensive Forces, the Central War Defensive Forces, the General Purpose Forces, and the Logistics Force. Now further consider that this trend toward centralized logistics has been completed and that this Logistics Force would be comparable to the Defense Supply Agency, responsible directly to the Secretary of Defense. Remember that Supply and Transportation, two of the logistic functions, have already become highly centralized, and that the other areas which present possibilities of "gains by economy and efficiency" are also in the

⁹Interview with NavCompt Officials on 20 September 1961

field of logistics, so that this possibility is not completely remote. This presents a very interesting speculation on an organization evolution which is developed in the appended charts.

The current Unified Command structure is schematically portrayed in chart #1. The operational chain of command extends from the Secretary of Defense through the Joint Chiefs of Staff to the Unified Commander. Responsibility for administrative and logistic support, tactics and techniques, and peculiar research and development remains with the individual Service Departments for their forces assigned to the unified commands. The removal of all logistic support responsibilities from the individual Service Departments by the creation of the Defense Logistics Force would change the schematic to that illustrated on chart #2.

But where this possibility becomes the most interesting is the translation of the schematic chart #2 into a structural organization chart as illustrated on chart #3. The removal of the logistic responsibilities from the individual Service Department would leave them a shell of their former organizational selves. They would be left with responsibilities which can be accomplished from the position of "advisory and coordinating" staff where they are shown on chart #3. This would in effect accomplish in a subtle manner an almost complete unification without the stigma of "single service" or "general staff" and all the associated implications. Further, all the "gains" from

unification would be realized and still retain the identity of the individual Service - the continuity of competition - the perpetuation of the tactics and techniques peculiar to each Service - which otherwise would have to be created artificially under a single service organization.

It is not the intent of the authors to adjudicate this as a desirable or an undesirable organization. It was our intent to indicate what appears to be a probable intermediate destination of the current trend in military organization. We use the term "intermediate destination" because it is recognized that organizational structures are fluid, and this projection was intended to capture one point, or at most, one period in time.

Although as a group we have neither supported nor opposed this hypothesized organizational development, we do as a group support the following theme: The state of the world is extremely serious. Times and conditions are changing with amazing speed. Scientific-technological advances and their effects in the past ten years have been more profound and far-reaching than most people realize. The impact of electronic data processing, better decision-making techniques, and improved communications facilities are being felt. All of these things have a decided impact upon organization. And they must also have a decided impact upon the thinking and attitudes of military officers. The day of parochialism is gone. Thinking and attitudes on military problems must reflect first and foremost - what is best

for the Department of Defense - and secondly, the individual Service. Although we do not wear the same uniform, and probably will not for several decades, we must think and work together with complete harmony and unity. This is the message of the times

[The following text is extremely faint and largely illegible due to fading and bleed-through from the reverse side of the page. It appears to be a continuation of the message or a related speech.]

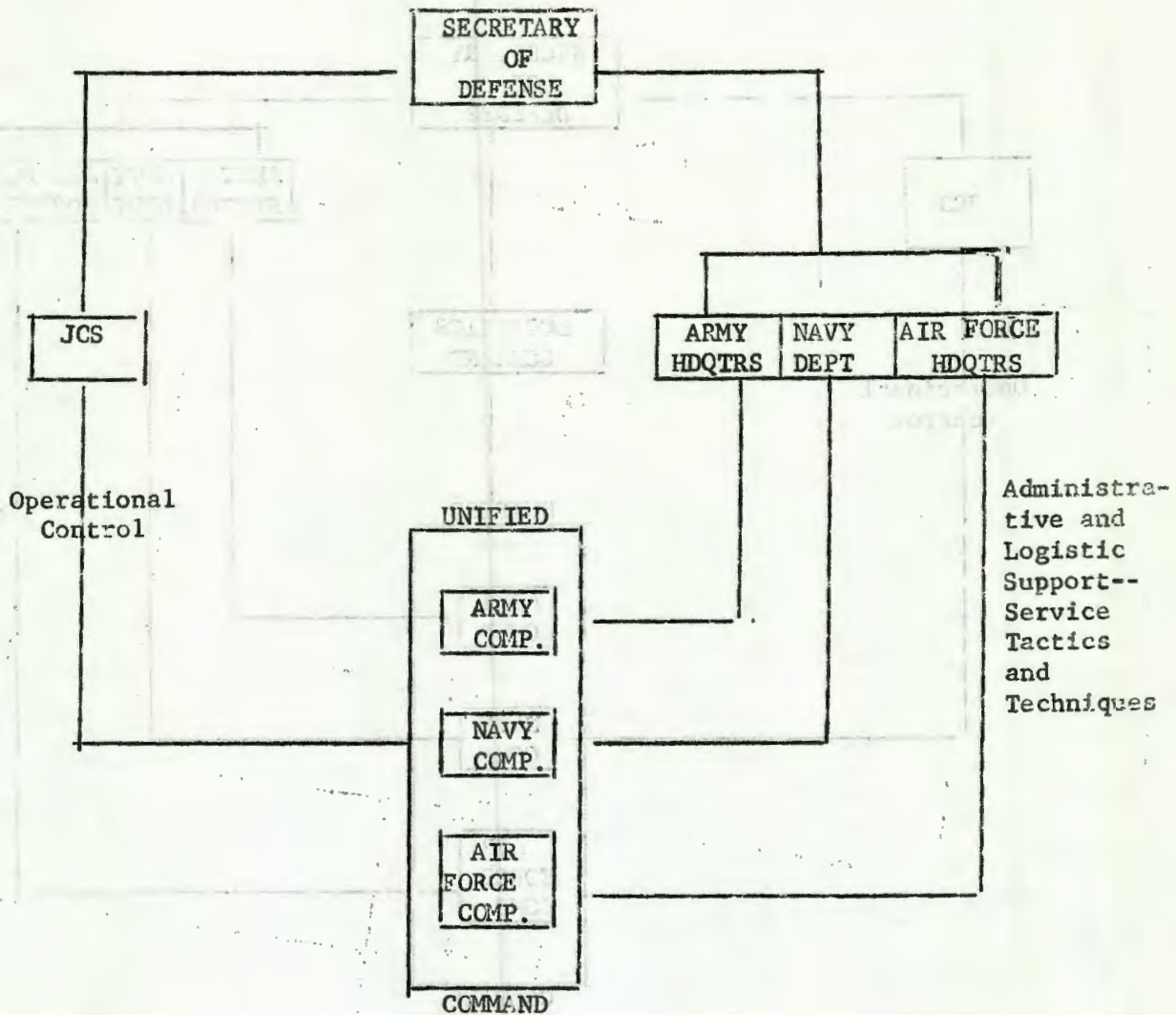


CHART 1

SCHEMATIC OF UNIFIED COMMAND PLAN

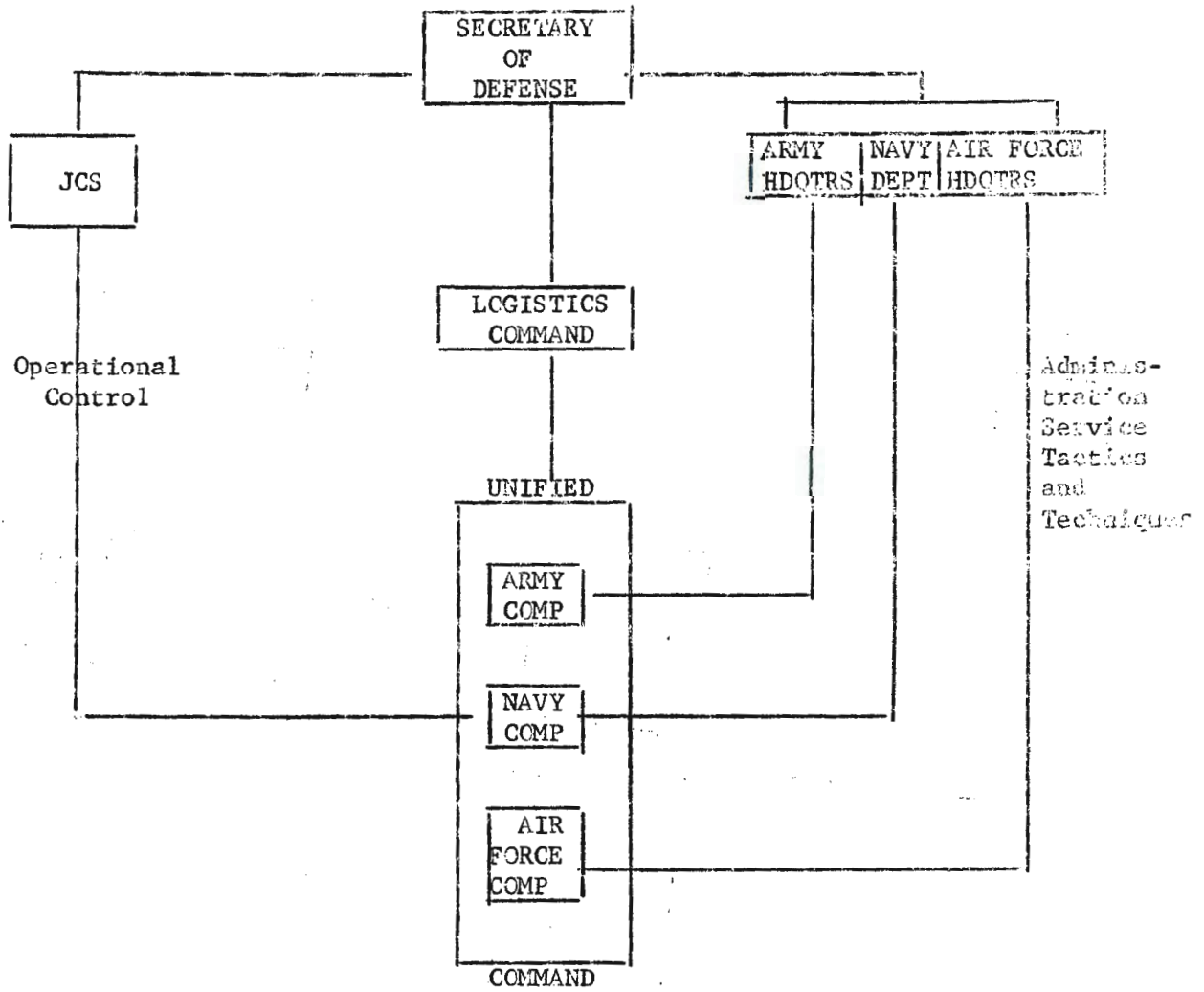


CHART 2

MODIFIED SCHEMATIC OF UNIFIED COMMAND PLAN WITH
LOGISTICS COMMAND

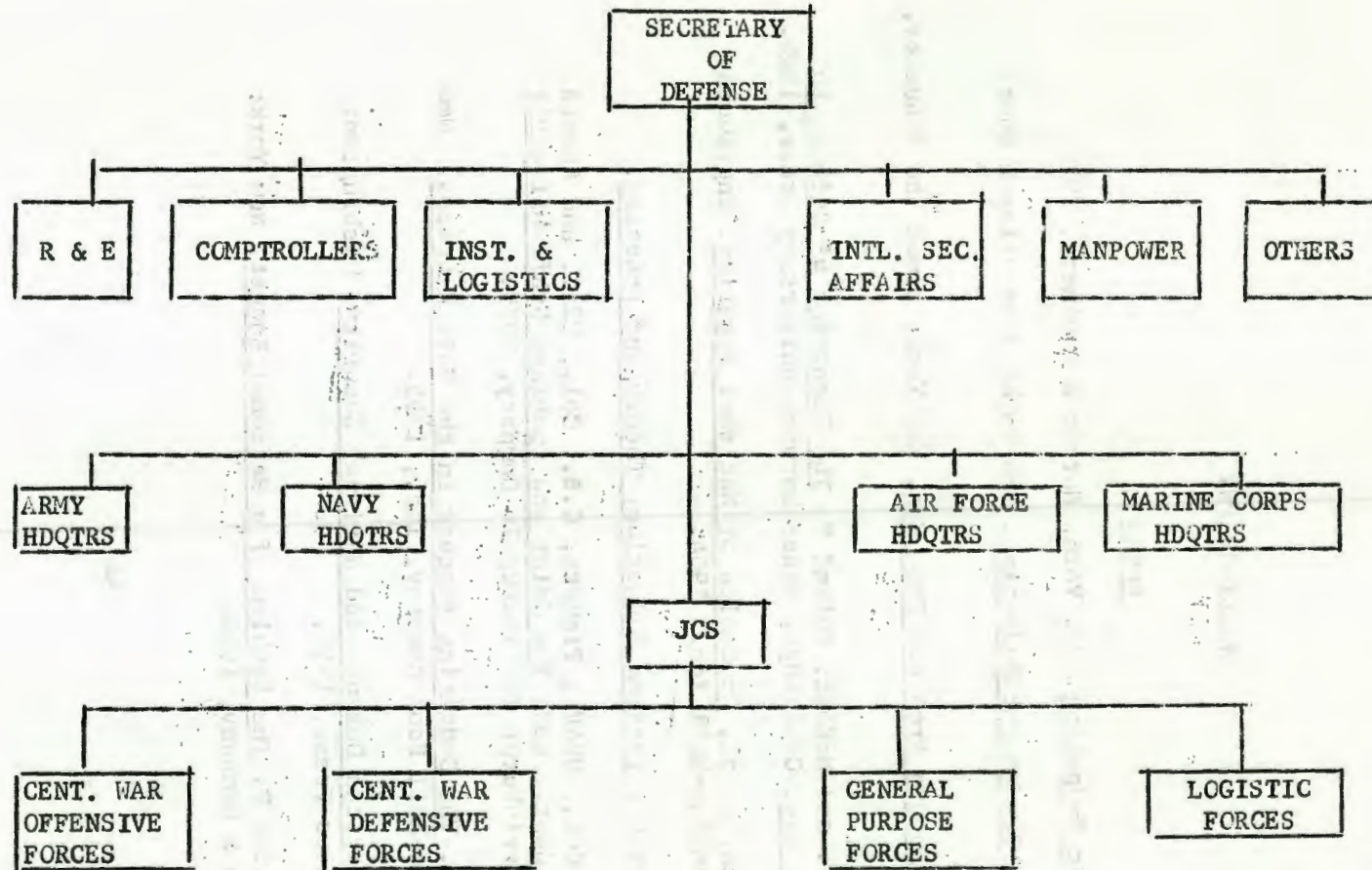


CHART 3. UNIFICATION?

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