

Enclosed are first 38 pages of *Report of the U.S. Defense Advisory Committee on professional and technical compensation, Volume 1*. (UC 74 A4 1957) This is known as the Cordiner Report. It is important in NCO history since the committee, in 1957, recommended modernization of the Enlisted Personnel compensation system to include "Expansion of the enlisted pay grade structure to include two additional pay grades (E-8 and E-9)." (p. 16) This reestablished the E-9 (Sergeant Major) grade which had existed earlier but been abolished. This also added the E-8 grade.

This is volume 1 which applies to military personnel. LRC does not have volume 2 which (I believe) covers civilian compensation.

The total report is 139 pages long.

Bill Hansen, Ft. Knox Armor School Librarian, called to ask if the LRC holds this item and explained that it is not readily available. He suggested it be input to DTIC to make it more accessible. I have not had time to work on this project but hope it can be accomplished in future.

Marijean Murray
Feb 2006

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Report of the
U.S. Defense Advisory



Committee

on

PROPERTY OF THE US ARMY

PROFESSIONAL AND
TECHNICAL COMPENSATION

MILITARY PERSONNEL

[CORDINER REPORT]

VOLUME I

Learning Resources Center
US Army Sergeants Major Academy
Fort Bliss, Texas 79918

MAY 1957

FOREWORD

The report of the Defense Advisory Committee on Professional and Technical Compensation is presented in two volumes.

Volume I contains the Committee's findings and recommendations on military personnel.

Volume II contains the Committee's findings and recommendations on civilian personnel.

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OFFICE OF THE SECRETARY OF DEFENSE
WASHINGTON 25, D. C.

Defense Advisory Committee
on
Professional and Technical Compensation

May 8, 1957

Dear Mr. Secretary:

The Report of your Defense Advisory Committee on Professional and Technical Compensation is submitted herewith.

Under the terms of Reference issued 23 March 1956, this Committee was appointed to advise you concerning the adjustments that might be needed in the present provisions for compensation of officer and enlisted technicians and civilian personnel in the upper grades in order to attract and retain the competent personnel required by our defense activities.

The Committee Report presents an integrated program, which, through modern management of the manpower in the armed services, can simultaneously reduce the cost and increase the effectiveness of the national defense. Adoption of this program in its entirety will, in our judgment, make it possible to attract, retain and motivate the scientific, professional, technical, combat leadership and management skills required by the Department of Defense today and in the future. It is believed the improvements will be far reaching and long lasting, and will bring in greater savings and gains with each passing year as the new systems are instituted. Such benefits cannot be achieved by half-measures which adopt the terminology but kill the substance of the recommendations.

In brief, the suggested program proposes:

1. A modern compensation plan to pay people what their services are actually worth, instead of paying people on the basis of longevity of service, and in this way encourage and reward outstanding performance, advanced skills, and military careers for high quality personnel.
2. A manpower management plan to provide a means for proper and effective administration of the pay plan. This manpower management plan is designed to give the Department of Defense greater flexibility and control over the distribution of skills and experience in the services and places emphasis on quality rather than quantity.

The six major results that can be achieved by means of the Committee's proposals, Mr. Secretary, are:

1. About a 15% improvement in the combat capabilities of the United States Armed Forces, without a significant change in the budget. Or
2. Savings and gains up to five billion dollars a year by 1962 - or sooner - in the cost of national defense.
3. Sharp reductions in training accidents now, and in military and civilian losses in the event of war.
4. Reduction in the number of military personnel required to produce a given level of national security.
5. A long-term solution to the basic manpower problems of the Armed Services.
6. Improved attraction, retention and motivation of the professional and technical civilian personnel in the Department of Defense.

In submitting this report, the Committee acknowledges the cooperation and active assistance of departments and agencies within and outside the Department of Defense. It has also had the benefit of the views and suggestions of individual Service personnel of all ranks and grades.

During the course of the Committee's work, other major areas of interest affecting the ability of the Department of Defense to attract, retain and motivate needed personnel were identified. In the time allocated for the Committee to complete its work, it became clear that the Committee could not adequately explore all of the areas identified for study. It was felt that the broad compensation subject was of such importance as to be the primary concern for the Committee. Therefore, the Deputy Secretary of Defense has directed that additional special studies be accomplished by the Department of Defense in these areas:

1. Military housing.
2. Feasibility of further augmentation of the Department of Defense work force through contracts with industry.

Limitations of time also precluded the Committee from making exhaustive study of the present "fringe benefits." We urge that further studies in this important area be made by the Department to determine the adequacy of the benefits now provided by law or regulation.

The Committee wishes to emphasize the importance of early completion of these studies, particularly on housing, and for prompt initiation thereafter of such specific measures as may be found necessary to correct existing deficiencies.

There is no automatic solution to Department of Defense manpower and compensation problems. The Committee believes that the instruments and approaches being recommended in this Report will make effective solutions possible. We urge that the Report receive the earnest consideration of the Congress and the Administration because it represents an important opportunity to improve the defense capabilities of the Nation and at the same time reduce the cost of defense, the largest single item in the Federal budget.

Respectfully,

/s/ John A. Hannah

/s/ Charles R. Hook

/s/ H. Lee White

/s/ Hugh M. Milton, II

/s/ Albert Pratt

/s/ David S. Smith

/s/ William M. Fechteler

/s/ Richard E. Nugent

/s/ C. Rodney Smith

/s/ Carter L. Burgess
Vice Chairman

/s/ Charles H. Hayes

/s/ Ralph J. Cordiner
Chairman

Honorable Charles E. Wilson

Secretary of Defense

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TERMS OF REFERENCE

The Secretary of Defense
Washington

MEMORANDUM FOR THE CHAIRMAN, DEFENSE ADVISORY COMMITTEE
ON PROFESSIONAL AND TECHNICAL
COMPENSATION

SUBJECT: Terms of Reference

The Commission on Organization of the Executive Branch of the Government has pointed out that compensation for military and civilian personnel in the upper grades is inadequate to attract and retain the competent management required by our defense activities. Present remuneration is not commensurate with the grave responsibilities such officials must assume and places the Department of Defense at a competitive disadvantage with private industry.

The Career Incentive Act of 1955 did much to improve the situation for military personnel in intermediate grades. However, recommendations for increases in officer grades O-7 and O-8 were appreciably reduced.

The pending Executive Pay Bill, to be considered by this Congress, will have a definite bearing on what increases should be extended civilian scientific and professional personnel and personnel in grades GS-12 or higher.

Consideration must be given to the existing system for recompensing officer and enlisted technicians. The present practice of rewarding technical ability with rank in order to provide adequate pay, depreciates military authority and responsibility. Our most recent efforts to improve the compensation of those in the medical profession are indicative of a piecemeal approach to the problem, dictated by demand and without orientation to our over-all manpower requirements. If feasible, a more suitable solution is desirable and indicated. The problem is a complicated one, as some balance must be maintained between technicians and combat personnel.

I have appointed this committee to advise me in the above matters. I request you consider the present compensation authorized both civilian and military managers and submit recommendations as to what adjustments are required in the upper grades. As a collateral problem you will also study a proper method of recompensing technical ability without depreciation of the authority and responsibility inseparable from command. Your recommendations should include necessary implementing legislative proposals.

Staff support will be provided by the Office of the Assistant Secretary of Defense (Manpower, Personnel and Reserve).

Liaison will be maintained with the Chairman, Civil Service Commission.

The Committee will complete its deliberations and submit recommended legislative proposals prior to the first session of the 85th Congress.

(signed)

Reuben B. Robertson, Jr.
Deputy

23 March 1956

CHAPTER I

THE REPORT IN BRIEF

Basic Objectives

This Report proposes a modern system of manpower compensation for the Armed Forces. The primary purpose of the measures recommended is to provide the kinds of incentives and conditions needed for motivation and retention of sufficient numbers of the professionally skilled officers, enlisted personnel, and civilians required by our Armed Forces today and for the foreseeable future.

Opportunity For Savings

It is the opinion of this Committee that adoption of the integrated program of proposed actions set forth in this Report offers a major opportunity for this country to begin cutting the cost of defense, the largest single item in the Federal Budget. Based both on industrial experience and Department of Defense studies, the increased retention of skilled personnel for extended service careers which is expected to result from the modernized and improved compensation structure and other measures proposed will make possible annual savings and gains of several billion dollars within a few years. These savings will aggregate many times more than the initial increased

personnel costs required by the proposals. The anticipated gains and savings, shown in detail in Chapter II of this Report, include both budget dollar reductions and increased combat effectiveness.

Changing Times

We live in a period of radically accelerating technological change -- an irreversible trend which has forced every modern institution to critically reappraise old practices and old traditions as it battles to survive in this changing era. Research, development and innovation on an expanding scale have become a way of life. Dramatic technological changes symbolized by nuclear energy, electronics, supersonic aircraft and missiles of awesome power are causing an explosion of change and growth in almost every social, political and economic institution -- and particularly in the military establishment.

Continuing demands for ever-improving defense weapons and equipment have forced the pace of national technological progress. These defense requirements and the resultant acceleration of technical progress have had a momentous impact on the nature of the industrial work force and its management.

President Eisenhower pointed the direction for the development of our future military forces in January 1955 when he stated in part:

"We should base our security upon military formations which make maximum use of science and technology in order to minimize numbers of men."

The machinery of modern defense is becoming ever more fantastically complex. No weapons system of today can safely be considered more than a transient stage in the headlong rush of technological discovery and development. Vastly improved weapons which will comprise the armament of tomorrow are now on the drafting boards and in the research laboratories. Our opponents are searching, developing and producing with equal speed and consummate skill.

Concurrent with the rapid pace of technology has been the past change of this country's role in the world political scene. The events of almost two decades of war and conflict, with their attendant destruction and invention, have catapulted this nation into an inescapable position as the leader of one half of a divided world. The ideological, moral, economic and military power of this country is the keystone of the defense of the Western World and of our civilization. The defense forces of the United States have assumed permanently a new and vital significance in world affairs.

It is now apparent that the level of our defense forces must be maintained indefinitely on a high plateau and in doing so must evolve rapidly with, and often provide the incentive for, the phenomenal technological pace of the age. It is therefore no surprise that recent defense costs are unparalleled in prior peacetime experience. In a rapidly rising economy the cost of defense has increased geometrically.

The demands which this order of defense make upon national resources are enormous. Obviously, if military capability of this order must be maintained, there must be devoted to the task a full measure of talent for efficiency and economy in its creation and employment. This nation cannot afford to get less than the most for its defense dollar. And it must, at any moment, be able to secure the maximum of output from the weapons in its arsenal.

Competent Management Essential

Changes in strategy and tactics geared to the pace of technological progress and the dynamic world situation create an unprecedented need for increasingly effective management in the armed forces.

Armed forces today are highly mobile. Time and space factors have been reduced sharply. The strategy for the employment of these forces calls for maximum dispersal and decentralization of operation. The latter serve to place increasing degrees of responsibility on men who occupy successively lower command positions.

So-called "Brushfire Incidents" bearing overwhelming consequences for all civilization continue to occur regularly in widely separated locations around the world. Correct and rapid identification of aircraft, surface vessels and of other military forces is highly important. Intelligence and initiative in evaluating the intent of such movements is of even greater importance.

Mistakes by officers in the field, such as incorrect evaluation of reports or intentions, could cause grave international complications. Mistakes in judgment regarding employment of weapons could leave the United States open to devastating attack.

Less critical than this capacity for competent judgment in command, but profoundly important in terms of national economy, is the need for managerial capacity. The inventory of equipment and facilities and the operating costs of the Defense Establishment today represent vast increases in dollar values. Since 1939 the annual costs of the armed forces have increased approximately 3500 per cent.

Advancing Technology and Military Manpower

The development and production of materiel for the military services consume a very significant portion of the technical manpower resources of industry. Effective utilization of the equipment delivered by industry creates the need for more technicians, greater managerial skill and a higher order of leadership in the Armed Forces. -

The requirement for technical skills comes earlier in industry than in defense. In spite of the time difference, it is inevitable that the need for technical know-how in military units will follow in relative proportion to the technology engineered into the weapons systems.

The effects of advancing technology on the military forces since the end of World War II have become increasingly clear. By the end of Korean hostilities the percentage of technicians and mechanics as a portion of the total enlisted force had increased from 34 to 41 per cent. This ratio was further increased to 44 per cent in 1956.

As increasingly complex weapons are developed and delivered to the armed forces, the ratio of needed technical skills will increase markedly. The great hunt for educated talent is being conducted in deadly earnestness throughout the world. The demands for engineers, scientists and technicians far outstrip the available supply. Reliable indicators of economic growth forecast an increasing demand for these same kinds of people.

The Defense manpower growth patterns pose the interesting paradox of severe problems and at the same time exceptional opportunities. From the President's emphasis on technology comes the ideal of quality. This is a measure of the present military manpower problem. Carefully conceived manpower planning, including "lead time" for skill development, is as vital to future combat effectiveness as is the creation of improved weapons.

The Military Manpower Dilemma

The modern military manpower problem, reduced to its simplest terms, is one of quality rather than quantity. It is not merely a matter of the total number of people on hand, but is much more a matter of the level of competence, skill and experience of those people.

The military services are not able, at the present time and under the present circumstances, to keep and challenge and develop the kinds of people needed for the period of time necessary for those people to make an effective contribution to the operation of the force.

At a time when a single aircraft with a small crew can deliver the destructive force of thousands of now obsolete aircraft; at a time when a small crew of highly skilled men can launch weapons of devastating power against an enemy in place of thousands of massed men equipped with less powerful weapons; at a time when a single naval vessel possesses the power individually that formerly could be gathered only from numbers of such vessels -- the people of this nation, and for that matter of the world, must be made aware that the size of military forces in

terms of total numbers of people available is not a valid measure of defense capability. We must move forward from a concern with numbers to a deeper concern for quality and for retention of skilled personnel for an extended period of productive service.

Establishment of the Committee

In recognition of the changes necessitated by the rapidly advancing technology of weapons systems and because of the increasing difficulty all Services were having in retaining the highly skilled personnel they needed, the Secretary of Defense organized the Defense Advisory Committee on Professional and Technical Compensation. The Committee was conceived in March 1956 when the Secretary of Defense pointed out the need for an examination of the manpower situation and personnel compensation practices of the Department of Defense and the military services.

With the appointment of Mr. Ralph J. Cordiner, President of General Electric Company, as Chairman, and Mr. Carter L. Burgess, then Assistant Secretary of Defense for Manpower, Personnel and Reserve, as Vice Chairman on May 10, 1956, the Committee actually came into being and began to function. Committee membership was quickly completed to include:

Dr. John A. Hannah, President of Michigan State University and former Assistant Secretary of Defense for Manpower and Personnel

Mr. Charles R. Hook, Chairman of the Board, ARMCO Steel Corporation and formerly Chairman of the Advisory Commission on Service Pay

Mr. H. Lee White, Member of the law firm of Cadwalader, Wickersham and Taft, New York, and former Assistant Secretary of the Air Force for Personnel

Mr. Hugh M. Milton, Assistant Secretary of the Army (Manpower and Reserve Forces)

Mr. Albert Pratt, then Assistant Secretary of the Navy (Personnel and Reserve Forces)

Mr. David S. Smith, Assistant Secretary of the Air Force
(Manpower, Personnel and Reserve Forces).

Admiral William M. Fechteler, USN, (Ret).

Lieutenant General Richard E. Nugent, USAF, (Ret).

Major General C. Rodney Smith, USA

Brigadier General Charles H. Hayes, USMC

The Services provided the Committee with a staff of selected officers headed by Major General H. R. Maddux, USAF, as Staff Director.

The Committee's Mission

The final mission of the Committee evolved through several stages. Initially it was requested to consider compensation practices for higher graded military and civilian personnel as well as the existing system for recompensing officer and enlisted technicians. Subsequently, this was expanded into a comprehensive examination of a wide scope of Department of Defense personnel and related problems including compensation, skill imbalances and training practices, industrial augmentation of defense facilities, military housing and related personnel benefits. Later the Committee's mission was refined by reassigning to other Defense agencies the problems of military housing and contractual services in support of the military. No arbitrary restrictions were imposed concerning personnel ceilings or budget limitations.

The Committee has evaluated its mission as that of developing and recommending a dynamic program of legislative and administrative measures suitable to attract and retain the combat leadership, scientific, professional, technical, and management skills required by our armed forces today and in the future. Among other measures such a program envisions an improved system for maintaining in the armed forces a workforce balanced by skills which will attain optimum performance from the

present weapons of warfare and those that will be developed in the future. It has considered the practical necessity of relating its recommendations to the reality of the national economy and the Federal Budget. As a result, it has recognized that all desirable measures cannot be undertaken simultaneously and that immediate corrective action can be addressed only to the most basic problems whose solution can effect the greatest improvement and establish the climate for further actions at a later date.

The Committee's Method

To acquire the kind of complete, all-encompassing knowledge needed for the development of sound conclusions and progressive remedial actions, the Committee initiated an exhaustive program to include:

- . Extensive travel to a varied range of military facilities in the United States and overseas where on-the-ground observations were made and informal opinion obtained from hundreds of Defense personnel at their assigned places of duty.
- . Collection and analysis of previous studies of the Department of Defense manpower and management problems and practices made by both Governmental agencies and independent commissions, of existing laws and regulations and of other factors and statistics bearing upon personnel problems. The extensive studies and conclusions of the Hook, Womble and Hoover Commissions in related areas were carefully considered.
- . Initiation of opinion surveys including symposia of enlisted personnel and their families in all Services to obtain an indication of current opinions concerning military personnel problems and recommendations for corrective action.
- . Use of civilian management consultation firms in preparing valid comparative analysis of military and civilian employment practices and compensation systems.

- . Establishment of contacts with other Government agencies to obtain related data and comparative facts on employment and compensation practices.
- . Collation, correlation, and analysis of resulting data with the assistance of a select group of staff officers and the full cooperation of specially qualified individuals at all echelons of the Department of Defense.

FINDINGS

General

. Vast sums of money are currently being expended for an ever-improving arsenal of weapons and equipment for the armed forces. This equipment is not being fully utilized because of the lack of trained personnel to use and maintain it or to manage its integration into the operational force. As the tools of modern defense and the technology of their use become more intricately complex, men -- the human element in defense -- become more, not less important. Greater numbers of men do not satisfy this need. Only marked increases in the level of competence and experience of the men in the force can provide for the effective, economical operation required by the changing times and national needs.

. Although numerical strength objectives are being met, the armed forces are not able at the present time and under the present circumstances, to attract and retain the kinds of people needed for the period of time necessary for them to make an effective contribution to the operation of the force. The problem is one of increased personnel retention on a selective basis rather than increased procurement.

Enlisted Personnel

. Reenlistment rates, though substantially improved from the critically low point of 1954, are inadequate to either build or to maintain a balanced work force with the proper distribution of technical and non-technical skills.

. The point of service at which improved reenlistments would provide the maximum gain in the development of a quality enlisted force is at the end of the initial period of service.

. First term reenlistment rates are highest among personnel for whom the training investment is lowest; conversely, reenlistment rates are lowest where the training investment is highest.

. The desired optimum first term reenlistment rates vary from 33% in the electronics work area to 23% in the supporting services occupational area (drivers, cooks, police, etc.).

. The percentage of improvement required to meet optimum sustaining reenlistment rates varies from 146% in the electronics occupational area to 0% in the supporting services functions.

. The first term enlisted population currently contains 300,000 inductees serving as a direct result of the Universal Military Training and Service Act. Another undetermined segment of the first term enlistment group consists of "voluntary" enlistees motivated directly by the same law.

. Present compensation practices recognize total length of service more than value of contribution. It is a system whereby promotion of the outstanding individual ahead of his associates does not necessarily result in his being paid more money than those over whom he was promoted.

. The present enlisted compensation rates are not competitive with those available in civilian industry.

Officer Personnel

. Influenced by government subsidized education programs and spurred by the impetus of compulsory military service, large numbers of newly commissioned officers enter the armed forces each year. While many of these officers are of exceptionally high quality, the majority are not motivated for career service and serve only the minimum time required.

. Current officer retention experience, though improved during the past two years, does not provide the Services with a sufficient degree of selectivity to maintain a high quality officer corps.

. Excessive officer turnover rates have reduced the training time available for developing the required degree of competence and experience in the most vital management element of the armed forces -- the Officer Corps.

. Cyclic expansion and contraction of the size of the armed forces since World War II have resulted in a bulge in officer experience in the 12 to 16 year service bracket.

. A critical shortage of officers in the 3 to 12 year service bracket exists in all Services.

. Each of the Services has a requirement for large numbers of reserve officers serving for periods in excess of that to which they are obligated but less than a normal, full retirement career. None of the Services is currently able to attract sufficient numbers of such officers to remain on active duty to meet officer strength requirements in that category.

. Wage progression from the lowest to the highest officer grades was compressed through successive compensation adjustment actions from 1908 to 1949, to produce a relatively flat pay pattern, particularly in the higher officer grades. The Career Compensation Act of 1949 and the Career Incentive Act of 1955 alleviated this situation somewhat, however, further improvement in this regard is essential to a sound pay pattern.

. Economic opportunities for officers in the armed forces do not parallel and are not competitive with those available in civilian industry.

CONCLUSIONS

. A comprehensive program to correct personnel deficiencies of the armed forces must be initiated without delay. This action is of first ranking importance to the nation from the standpoint of maximum defense capability from our defense dollar. The Services have estimated that, with the required retention of quality personnel, combat capability can be improved in the order of 8 to 16% within 5 years.

. It is impractical for budgetary and other reasons to attempt to solve simultaneously all facets of the personnel problem. Primary effort should be devoted immediately to the solution of the paramount and most pressing element -- compensation. Subsequent corrective action should be taken in orderly succession with due regard for the cumulative effect of all actions in modifying the personnel situation.

. Present compensation practices of the armed forces are so clearly out of step with the times, so clearly inadequate to the needs of a technically advanced form of national defense, and so clearly contrary to all that has been learned about human motivations that they can unmistakably be identified as a major impediment to national security. Modernization of compensation practices is, therefore, the basic problem to be attacked immediately.

. A modernization of compensation practices in the armed forces will create the incentive for retention which is a fundamental prerequisite for effective personnel control measures required to maintain a work force balanced by skills which will attain optimum performance of present and future weapons.

. Improved retention of quality personnel, and enhanced efficiency resulting therefrom, provide a practical means of progressively reducing defense costs without jeopardizing defense capability.

RECOMMENDATIONS

(1) A fundamental modernization of compensation practices of the armed forces embodying the following basic concepts:

. A compensation system that will attract intelligent people possessing a strong sense of responsibility to their country and to their families, and sufficient pay to enable them to discharge their responsibilities to both simultaneously.

. A compensation system with incentives that bear a direct relation to the effort or contribution of the individual.

. A compensation system designed to encourage meritorious performance and advancement to higher responsibilities with reduced emphasis on monetary reward for total length of service.

. A compensation system with a broad pricing base for the identification of a variety of skills as represented in the varying needs of different service situations, with controls to insure that rewards are genuinely given where deserved.

. A compensation system with compensation levels reasonably comparable to those paid people employed elsewhere in similar positions and occupations.

. A compensation system susceptible of rapid and equitable adjustment to compensate for changes in the national economy.

(2) A commissioned and warrant officer compensation system embodying the following:

. A level of compensation for each grade based on the precepts of (1) above. Recognition of the increased responsibilities of higher rank by a pay scale in which the lowest pay in any grade is invariably higher than the highest pay of the next lower grade.

. The elimination of longevity as a basis of compensation and the establishment of a system in which the entry pay for each grade is the same for all personnel entering the grade. Incorporated with this is a provision for in-grade increases, limited by the time in-grade contemplated in the Officer Personnel Act of 1947 and thus limit the maximum pay of a recipient unless he qualifies for and is advanced in grade.

. Recognition of the present practice of increased compensation for 3 and 4-star ranks and the establishment of corresponding pay grades 0-9 and C-10 as compensation levels for all purposes.

. Provision for an Active Duty Supplement for grades 0-5 through 0-10 which accrues only during active duty of thirty days or more.

. Rates of pay as shown in Table II. (Pay grades and equivalent ranks for the Armed Services are shown in Table I.)

PAY GRADES AND EQUIVALENT RANKS OF THE ARMED SERVICES

Commissioned Officers

Pay Grade	<u>Army</u>	<u>Air Force</u>	<u>Marine Corps</u>	<u>Navy</u>
O-8	General of the Army	General of the Air Force		Fleet Admiral
O-8	General	General	General	Admiral
O-8	Lieutenant General	Lieutenant General	Lieutenant General	Vice Admiral
O-8	Major General	Major General	Major General	Rear Admiral (upper half)
O-7	Brigadier General	Brigadier General	Brigadier General	Rear Admiral (lower half)
				Commodore
O-6	Colonel	Colonel	Colonel	Captain
O-5	Lieutenant Colonel	Lieutenant Colonel	Lieutenant Colonel	Commander
O-4	Major	Major	Major	Lieutenant Commander
O-3	Captain	Captain	Captain	Lieutenant
O-2	First Lieutenant	First Lieutenant	First Lieutenant	Lieutenant (JG)
O-1	Second Lieutenant	Second Lieutenant	Second Lieutenant	Ensign

Warrant Officers

(Marine Corps and Navy)

W-4	Chief warrant	Chief warrant	Commissioned warrant over 20 years' service
W-3	Chief warrant	Chief warrant	Commissioned warrant over 10 years' service
W-2	Chief warrant	Chief warrant	Commissioned warrant less than 10 years' service
W-1	Warrant officer (JG)	Warrant officer (JG)	Warrant officer

Enlisted Personnel

E-7	Master Sergeant	Master Sergeant	Master Sergeant	Chief Petty Officer
E-6	Sergeant, 1st Class	Technical Sergeant	Technical Sergeant	Petty Officer, 1st Class
E-5	Sergeant	Staff Sergeant	Staff Sergeant	Petty Officer, 2nd Class
E-4	Corporal	Airman, 1st Class	Sergeant	Petty Officer, 3rd Class
E-3	Private, 1st Class	Airman, 2nd Class	Corporal	Seaman
E-2	Private	Airman, 3rd Class	Private, 1st Class	Seaman apprentice
E-1	Private	Airman, Basic	Private	Seaman recruit

TABLE II

PROPOSED OFFICER PAY STRUCTURE
(MONTHLY RATES OF BASIC PAY)

GRADE	ENTRY RATE	IN-GRADE PAY STEPS					
		Step I over 1 Yr	Step II over 2 Yrs	Step III over 3 Yrs	Step IV over 4 Yrs	Step V over 5 Yrs	Step VI over 6 Yrs -
	\$2,000*						
	1,750*						
	1,500*						
	1,250*						
	950*		1,005*		1,065*		
	710*		750*		795*		840*
	530		560		595		630
	420	432	445	458	471	485	500
	335	345	355	365	375		
	222	244	268				
	530		560		595		
	462		484		506		
	396		418		440		
	350		373				

Following "EXTENDED ACTIVE DUTY SUPPLEMENTS", included in pay as shown in table for Grades O-5 through O-10, applicable only to officers extended active duty exceeding 30 days and are not included in computation retirement pay:

GRADE	EXTENDED ACTIVE DUTY SUPPLEMENT
O-10	\$300
O-9	250
O-8	200
O-7	150
O-6	100
O-5	50

. Provision that no individual will, because of this proposal, receive less pay than that to which he is now entitled.

. Provision for the extension of in-grade steps for Nurses and Medical Specialists, who can normally anticipate termination of a career in grade O-3, by adding the following steps:

Step VII (over 8 yrs) \$530	Step VIII (over 10 yrs) \$562	Step IX (over 12 yrs) \$596
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. Provision for special incentive pay for medical, dental, and veterinary officers as shown in Table III.

. Provision for the application of the system to reserve and retired officers not on active duty, except for the "extended active duty supplement" as indicated in Table I.

. A Reserve Officers Term Retention Incentive Plan to retain adequate numbers of qualified reserve officers on voluntary active duty following obligatory service, with the following features:

(a) A contract for active service beyond obligated service.

(b) An additional payment at time of release from service equal to two months base pay multiplied by the years of commissioned service creditable for term retention payments, restricted to a maximum payment of two years base pay.

(3) Basic modernization of the Enlisted Personnel compensation system to include:

. Introduction of the merit, step-in-grade practice similar to that described in the Officer Compensation program in place of present longevity pay practices.

. Expansion of the enlisted pay grade structure to include two additional pay grades (E-8 and E-9).

. Inauguration of a Proficiency Pay Program through which selected enlisted personnel can be advanced one or two pay grades

TABLE III

SPECIAL PAY FOR
MEDICAL AND DENTAL OFFICERS

Less than 2 Years as a Medical or Dental Officer

Pay Grade	Special Pay
O-2	\$ 100
O-3	100
O-4	100

On Completion of 2 Years as a Medical or Dental Officer

Pay Grade	Special Pay
O-2	\$200
O-3	200
O-4	200

In Grades of Lt Colonel and Above

Pay Grade	Special Pay
O-5	\$150
O-6	100
O-7	100
O-8	100

SPECIAL PAY FOR VETERINARIANS

Pay Grade	Special Pay
O-1	\$100
O-2	100
O-3	100
O-4	100
O-5	50
O-6 and above	--

above their military rank grades in recognition of exceptional levels of competence.

. The establishment of compensation rates for enlisted pay grades as shown in Table IV.

TABLE IV
PROPOSED ENLISTED BASIC PAY SCALE
(Dollars Per Month)

<u>Pay Grade</u>	<u>Years in Grade</u>				
	<u>0 to 2</u>	<u>2 to 4</u>	<u>4 to 6</u>	<u>6 to 8</u>	<u>Over 8</u>
E-9	\$400.00	\$410.00	\$420.00	\$430.00	\$440.00
E-8	350.00	360.00	370.00	380.00	
E-7	300.00	310.00	320.00	330.00	
E-6	250.00	260.00	270.00	280.00	
E-5	210.00	220.00	230.00		
E-4	140.40	180.00			
E-3	99.37	117.00			
E-2	85.80				
E-1	78.00				

(4) With respect to emoluments in addition to basic pay:

. Without a basic readjustment of special pay for hazardous duty, convert the existing rates which are coupled with grade and longevity to comparable rates coupled with grade and merit step position in grade. Defer, pending evaluation of the results of the basic pay proposals, any reevaluation of hazardous duty pay scales. The conversion results in the rates of hazardous duty pay as shown in Table V.

. Continue flat-rate hazardous duty pay (parachute duty, deep sea diving, demolition, etc.) at present rates of \$110 monthly for officers and \$55 monthly for enlisted personnel, deferring reevaluation of these rates pending experience with new basic pay rates.

TABLE V

PROPOSED HAZARD-INCENTIVE PAY SCALE
(For Aircraft and Submarine Crew Members)

Officer and Warrant Officer

2 Year Steps

Pay Grade	Applies to Basic Pay	Over 2 Years	Over 4 Years	Over 6 Years
O-10	\$ 165			
O-9	165			
O-8	165			
O-7	160			
O-6	245			
O-5	245			
O-4	220	230	240	
O-3	185	190	200	205
O-2	150	160		
O-1	100	105		

Aviation
Cadet

50

W-4	\$ 165			
W-3	140			
W-2	135			
W-1	130			

Enlisted

E-9	\$ 105			
E-8	105			
E-7	105			
E-6	90	95		
E-5	80	85		
E-4	65	70		
E-3	60			
E-2	50			
E-1	50			

Continue the existing reenlistment bonus authority with its existing limitations on total bonus. Its application under new basic pay rates will serve to increase the career motivation for the critical first-term reenlistee possessing the most needed skills.

Retain unmodified the Armed Forces Leave Act of 1946. However, require the Services to maintain records of unused leave and to take effective action to permit and encourage the normal taking of leave in the interest of maintaining the health and well-being of the force.

Establish an incentive pay related to basic pay to compensate for duty in remote or isolated areas or in areas of extreme climatic hardship. Rates and areas of eligibility should be related to those now authorized for personnel of the Department of State, but modified where required by conditions unique to military service. Uniform Service-Wide application should be assured by supervision by the existing Joint Per Diem Travel and Transportation Committee.

(5) With respect to military housing:

Take immediate action to initiate a reexamination of the government housing programs for military personnel. This examination and the subsequent housing actions should be designed to establish acceptable standards and clear priorities for the construction of additional housing and the clarification of existing housing construction programs to bring them to early fruition.

Concurrently with the examination and subsequent actions to accelerate housing construction programs, quarters allowances paid to members of the armed forces should be readjusted to bring them into line with the increased costs of procuring housing on the civilian market as represented in the Consumer Price Index prepared by the Department of Labor. Permissive legislative authority should be sought as part of a subsequent legislative program which would authorize changes in the allowances for quarters by Presidential action at such times as the consumer price index for housing components changes two or more points.

(6) With respect to relating military compensation to the National Economy:

Request the Department of Labor to develop a valid index or relating military compensation to the trends of wages and salaries of comparable positions in industry. Such a device would make possible a continuing review of the relationship of military pay scales to those in the civilian economy and simplify the procedures of providing timely and appropriate recommendations regarding military pay to the Congress.

(7) With respect to "fringe benefits."

Take effective, continuing action to reestablish and maintain appropriate "fringe benefits" for service personnel and their dependents. These benefits include adequate medical, dental, exchange and commissary facilities, travel allowances for personnel and household effects, and reimbursement for necessary expenses incident to directed, official travel and related activities. Since World War II the quality of these former service benefits has seriously eroded while simultaneously they have become firmly established and greatly expanded in civilian compensation practices.

Inform Congress and the Public of the significance and relationship of these aspects of service life to the maintenance of an effective military manpower program.

(8) As retention of quality military personnel improves, re-evaluate existing personnel controls and institute new controls to accomplish the following:

(a) With respect to Officer Personnel:

. A stiffening of the criteria of selection for promotion and retention to insure the retention and advancement in all grades of only the highly qualified.

. Improved procedures for separating from active duty those who have failed of selection for promotion and have evidenced declining productivity.

(b) With respect to Enlisted Personnel:

. An improved system of individual evaluation providing a more accurate basis for merit advancement and qualitative retention.

. Institution of more stringent controls at both the initial and career reenlistment points to restrict reenlistment of individuals having lower mental, physical, proficiency and conduct standards than those established as "desired minimum" standards.

. Establishment of an initial reenlistment control to restrict career acquisitions to those for whom a projected skill requirement exists and to those possessing the capacity for retraining into alternate required skills should the need for their initial skills decline.

. Institution of controls at each successive reenlistment to restrict acquisitions to those required to meet Service needs by rank and skill.

. Provision of more stringent control of reenlistments of personnel with over twenty years service to maintain the vitality of the enlisted corps and retain for the longest careers only those individuals of outstanding qualifications for whom a need exists.

. Establishment of the closest coordination among the agencies controlling force skill requirements, enlistment and reenlistment controls and training programs to insure the minimization of skill imbalances as skill requirements change and the timely elimination of those which do arise as modifications in weaponry and tactics evolve.

(c) With respect to education in the Service:

. Early identification of college-qualified enlisted personnel and prompt action to encourage and assist those qualified and motivated to apply for officer

training, to assign those not interested in officer qualification to appropriate technical training in accordance with their qualifications and the needs of the Service, and to assist those not militarily motivated and excess to Service needs to matriculate in college, releasing such individuals from active service so long as they successfully pursue their college courses.

. Maintain a proper balance of mandatory service following in-service training to insure the highest quality input into training which quantitative requirements and retention experience will sustain, providing maximum training opportunities to career motivated, quality personnel.

. Provide strong encouragement to career officer personnel to complete basic college training and provide advanced college training for such personnel to meet Service needs.

Content of Other Portions of the Report

The foregoing summary of the Committee's findings, conclusions and recommendations pertaining to military personnel has been presented in brief and without explanation. The factors and considerations involved in the proposed solution for the Military Personnel Problem are analyzed in detail in Chapters III, IV and V of this volume of the report. Volume II of the report presents the Civilian Personnel Problem and contains the recommendations of the Committee for a series of actions to improve the acquisition and retention of high quality civilian employees.

CHAPTER II

COSTS AND SAVINGS

IMPACT ON THE NATIONAL ECONOMY

In order to fully evaluate the acceptability of Committee recommendations, the dollar impact of these proposals on the Defense Budget and on the National Economy must be calculated.

The Committee is fully aware of the need to hold defense expenditures at a minimum. The cost of Defense is already high and the present tax burden carried by the people is a heavy one. Barring unexpected changes in the international situation, the prospects for any sizeable reductions in the cost of the present level of national security appears remote. The ever increasing complexity and costliness of new aircraft, missiles, and other modern weapons indicate continued higher costs for materiel in the future. Yet, Defense cannot be bought by dollars alone. President Eisenhower summarized this thought in his State of The Union Message on January 10, 1957.

"...we must not delude ourselves that safety necessarily increases as expenditures for military research or forces-in-being go up. Indeed, beyond a wise and reasonable level, which

is always changing and is always under study, money spent on arms may be money wasted on sterile metal or inflated costs, thereby weakening the very security and strength we seek..."

This Committee recognizes fully that it is not the proper authority to calculate the force level necessary for the defense of the United States -- nor is it the proper agency to determine the proportion of our national capacity which should be devoted to defense.

Nevertheless, we do feel that it is within our province and competence to develop measures which will provide for the personnel component of a pre-determined level of defense at the lowest practicable long range cost. Conversely, these same measures will assure that any pre-determined number of defense manpower dollars are used to maintain the most effective possible forces of qualified and motivated men in uniform.

This Committee is firmly convinced that human beings are the most important component of all modern weapon systems. The maximum possible capability in the personnel associated with operating these weapon systems is essential -- otherwise, regardless of how expensive or advanced, the systems are not effective. If the armed forces are manned with personnel of minimum or marginal capability, they cannot achieve operational effectiveness in proportion to the technical capacity built into materiel. Realization of the full potential of the billions of dollars worth of ships, planes, tanks, and guns provided by the taxpayer is dependent upon fully qualified personnel to operate them.

The current loss of effectiveness suffered by the inability of the Services to retain personnel is expensive and wasteful. The large amounts of money and effort expended on training is likewise unduly costly. Accordingly, it has been concluded that any savings in Defense costs -- and thus a positive deflationary step to ease the burden of the taxpayer -- must come from better performance within the armed forces through the development of a high quality, more stable force. Such a force,

consisting of better trained, more experienced and competent workers and managers will require fewer men to maintain the present level of defense capability or provide an improved capability with the same number of men.

EFFECT OF QUALIFIED MANPOWER RETENTION

Gains in Operational Effectiveness

The urgent need for increased retention of qualified manpower in the armed forces has been defined and delineated by the Services. This need has been expressed by measuring the improvement in effectiveness and efficiency which would accrue to current forces if optimum retention were experienced. This same measurement is a real indication of the decrease in the net worth of our military establishment currently being experienced as a result of our inability to retain qualified personnel.

The gains resulting from an increase in quality and experience of personnel are cumulative and far reaching. As supervisory personnel devote less time to actually doing the things incapable of accomplishment by the inexperienced personnel under them, they can devote more time to constructive thinking and operational planning. Instead of being occupied with basic training and taking corrective action made necessary by the acts of incompetent or untrained personnel, they can better apply themselves to their proper supervisory functions. Only when this is possible will we have the management of all echelons of organization necessary to increase operational effectiveness.

Two other very important benefits will result from having personnel with more experience and efficiency: first, there will be an increased wealth of knowledge and "know-how" from which to draw in the research and development of new equipment and techniques, and second, there will be a well-trained nucleus upon which to expand in the event of mobilization. Permanency of capable and experienced personnel will also greatly increase operational effectiveness indirectly by contributing materially to the efficiency of administrative actions. Dollar gains will be

realized through the greater cost consciousness and application of the knowledge of cost accountability by more experienced personnel.

Over-all improvements in combat capability indicated by the Services ranged from 8.8% to 16% and averaged approximately 15%. The significance of this percentage increase is difficult to measure in dollars.

In the Army, improved retention will improve the capability to deploy under conditions of mobilization. Further, some items of equipment now on hand but not serviceable can be placed in operational readiness by a qualified force. By placing a dollar value on reduced training time not required for deployment (\$97 million) and by computing the value of increased equipment now on hand which could be effectively placed in operation and maintained with qualified personnel (\$150 million), a dollar measure of some of the increased capability can be computed -- \$247 million.

In the Navy, the value of equipment now on hand which would become operable with qualified personnel exceeds \$1.2 billion. Reduced aircraft accidents in the Navy and Marine Corps will result from the retention of qualified aircrew and maintenance personnel. The dollar value assigned to this reduction exceeds \$311 million. The dollar value of the increased utilization of Marine Corps equipment under conditions of optimum retention is \$76 million. The total dollar value of increased operational effectiveness in the Navy that can reasonably be expressed in dollars exceeds \$1.5 billion. An actual test of this philosophy has been conducted in the Navy where an anti-submarine squadron was selectively staffed with experienced personnel throughout the squadron. As a result this unit was far more effective than similar squadrons not manned with experienced personnel. The level of aircraft availability, utilization and aircrew efficiency was outstanding. This squadron had no aircraft accidents during its deployment to the Mediterranean as contrasted to nine accidents resulting in complete losses suffered by other squadrons of this type during the same period.

In the Air Force, aircraft accidents will be reduced by the retention of qualified pilots and maintenance personnel. The dollar value of this reduction is \$220 million. The value of additional combat ready aircraft now on hand but not in commission is estimated to be \$2.7 billion under optimum retention. Increased operability of guided missiles, ground radar and vehicles under these same conditions have a value of over \$260 million. Over-all gains in the Air Force of items that can be measured in dollars exceeds \$3.2 billion.

In order to phase these dollar equivalents over the next four years, the following amounts were computed by the Services on the assumption that retention would constantly improve and that optimum retention would be achieved by 1 July 1961. TABLE VI is a recapitulation of those dollar measurements and Chart 1 portrays the total amounts graphically.

TABLE VI

INCREASED COMBAT EFFECTIVENESS
REASONABLY MEASURABLE IN DOLLARS
(Millions of Dollars)

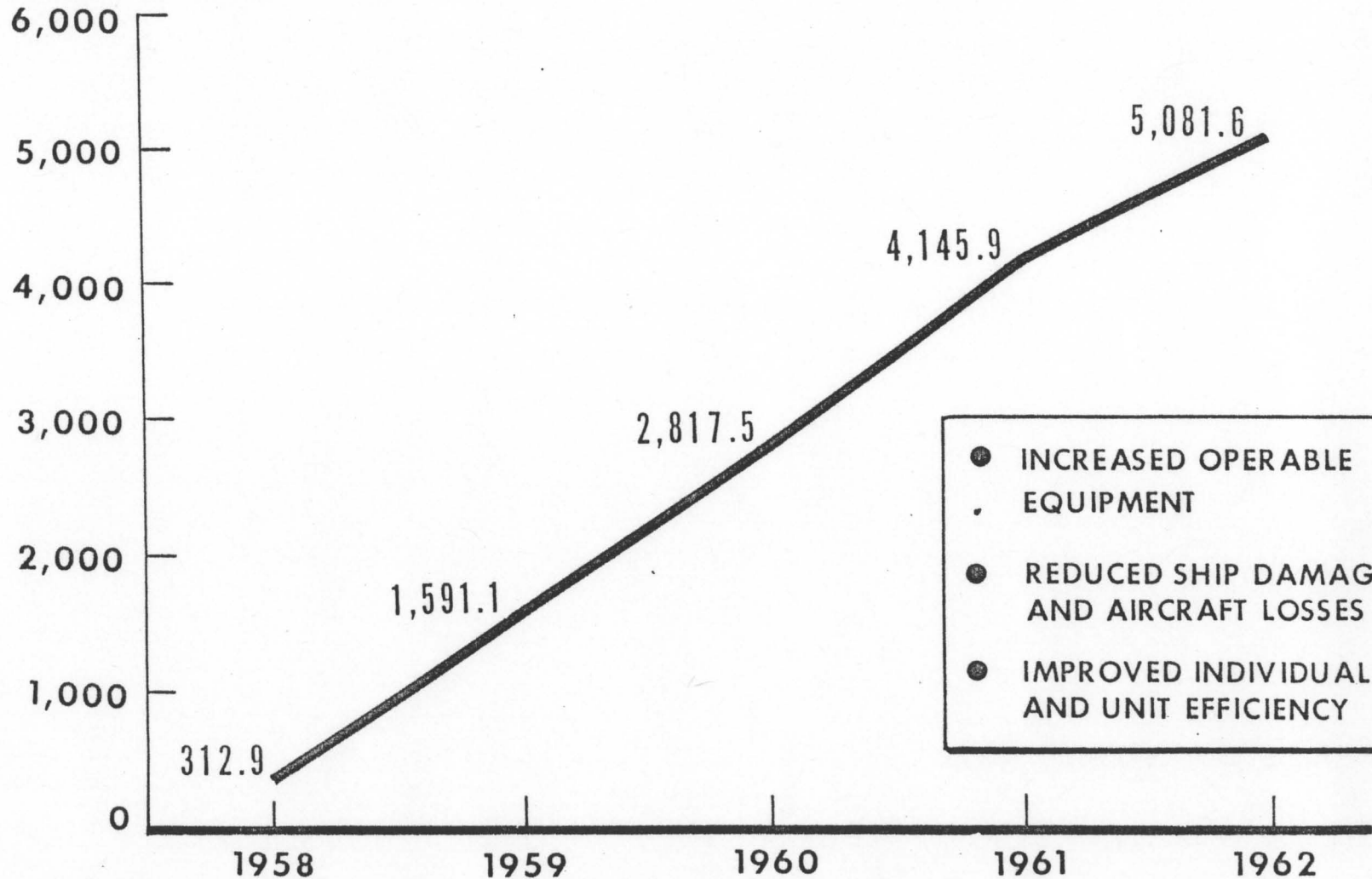
	<u>FY 1958</u> <u>1 Jan Eff Date</u>	<u>FY 1959</u>	<u>FY 1960</u>	<u>FY 1961</u>	<u>FY 1962</u>
Army	17.2	76.2	118.0	197.4	246.7
Navy (including Marine Corps)	7.5	294.4	825.2	1364.4	1632.6
Air Force	288.2	1220.5	1874.3	2584.1	3202.3
TOTAL	312.9	1591.1	2817.5	4145.9	5081.6

In addition to the above, improved capability not reasonably measurable in dollars will result from the retention of qualified and experienced personnel. Examples of these improvements include the following:

CHART 1

INCREASED COMBAT EFFECTIVENESS REASONABLY MEASURABLE IN DOLLARS

Millions of Dollars



- INCREASED OPERABLE EQUIPMENT
- REDUCED SHIP DAMAGE AND AIRCRAFT LOSSES
- IMPROVED INDIVIDUAL AND UNIT EFFICIENCY

. In the field of radar detection, fleet evaluation shows that a destroyer equipped with standard electronic equipment, and manned with personnel of excellent ability and experience has the capability of providing the same coverage as about three of the same type of ships operating in company if these latter are manned with personnel of average ability and experience. The increase in radar coverage provided by a ship manned by qualified and experienced personnel would provide an increase in protection for not only continental and land bases but also the Fleet. By better protecting the ships and units of the Fleet, the combat readiness of these ships is improved, thus increasing their capability to inflict damage upon an enemy in time of war. Moreover, the amount of damage to an enemy could be expected to decrease the amount of damage inflicted by the enemy on one's own forces. Although this is an example from the Navy, the principle is equally applicable to other Services in the general field of radar detection.

. The increased operational effectiveness resulting from retention of qualified and experienced personnel is even more pronounced in the Navy in the field of anti-submarine warfare. The degree of effectiveness of our ships, planes and equipment in the detection, classification and kill of enemy submarines is dependent upon the degree of competence of the personnel involved in the operation. To get results, they must be trained and they must be experienced. The many tremendously costly "black boxes" will not do the job without proper evaluation, direction and guidance from the men operating them. The gain in the kill of one enemy submarine, whether or not it was carrying guided missiles with which to attack our cities, is extremely large.

. The employment of current aerial, surface and submarine laid mines requires the assembly of mines in various combinations of influences, delays and ship counts as determined by the conditions prevailing at the target area. Readiness exercises have revealed that personnel errors in mine assembly have resulted in failure in approximately 12 per cent of mines assembled. The mines which fail because of personnel errors would be ineffective against the intended target. It is

estimated that with more highly qualified assembly personnel this percentage would be reduced to a maximum of one or two per cent. A gain is evident in the lesser number of mines required to be placed in the mine field with related gains applicable to the lesser number of delivery agents required in laying the mines.

. The effect of experience added to training can be seen in the field of guided missiles in all services. In general, missiles prepared and used by a group with a few years experience perform twice as effectively as missiles prepared by a group with similar training but no backlog of experience. With the increasing complexity of weapons systems a continually higher level of proficiency and experience of the personnel who operate this equipment is required. It is evident that qualified and experienced personnel can operate equipment which is too complex for less experienced personnel. This factor assumes an increased importance in this period when complex missiles and their related controls are replacing guns and conventional fire control systems, nuclear propulsion is replacing conventional engineering plants, and nuclear weapons are replacing old style explosives.

. Failure to retain high quality personnel necessitates the scheduling of an inordinate amount of time to training in elementary skill areas. In the Navy it is estimated that twelve per cent of the employment of ships during their available sea keeping time between overhauls must be devoted to this repetitious effort. Retention of the better quality personnel with resultant increase in the level of skill and experience of the ship's company would obviate this requirement entirely and achieve gains in ship operating time which could be applied to the operational effort. This same principle applies to all services within their functional area. Maintaining proficiency requires less training time than that needed to initially qualify individuals and units. In the Strategic Air Command alone, the manning of B-47 aircraft with professional aircrews would reduce training time now spent in attaining minimum levels of proficiency of replacement crews. The fuel savings alone associated with this reduction in flying hours would exceed \$5.4 million per year.

Increased efficiency of aircrews will further increase bombing accuracy and reduce the number of aircraft now required to destroy specific D-day targets. This reduction will be reflected back to further reduce support, base, and training requirements.

Defense Budget Savings

In addition to gains in effectiveness, the Services have computed real budget gains which will result from the retention of qualified personnel. Budget gains include dollar savings in personnel, maintenance, and materiel. In the personnel area, man-year reductions are possible in training, support, transient, and operating forces.

During the period of low retention and high turnover leading to the present acute situation, it was necessary for the Services to expand their training establishments substantially in order to cope with the influx of new personnel and to make reasonable progress toward the desired quality standards. Since the Services were operating under fixed personnel ceilings, this augmentation of the training establishment was accomplished by diverting personnel from operating and support functions to the training effort. This diversion, together with increasing complexity of equipment and expanding strategic requirements, has placed the operating forces in a constant "stretch-out" regime of low manning levels, shortage of critical skills, heavy operating schedules, and increased length and frequency of overseas tours. This condition has further resulted in an unacceptably high degree of personnel instability -- characterized by large numbers of personnel in transit and by the assignment of ineffectives to operating forces. Ineffectives in this instance are personnel who have been school trained but are inexperienced and who require extensive on-the-job training. An example of the result of this instability can be found in a major combat command which has 100,000 men assigned. At any point in time, approximately 70% of these men will have served in the command for a period of less than one year and are, therefore, not yet qualified or capable of maximum effectiveness.

Under conditions of optimum retention the numbers of personnel in transit and training will certainly be reduced. This will further reduce training overhead. As a result of greater individual effectiveness, fewer personnel will be required to do some jobs in operational units. This reduction will be reflected back in a further decrease in training and transient requirements. Table VII is a recapitulation of Service computed progressive man-year reductions plus associated costs computed on the assumption that optimum retention will be reached by 1 July 1961 with a constant improvement commencing in FY 58.

TABLE VII)

BUDGET GAINS (PERSONNEL)

<u>Military Dept.</u>	<u>Reductions in Man-Years (Thousands)</u>				
	<u>FY 58</u>	<u>FY 59</u>	<u>FY 60</u>	<u>FY 61</u>	<u>FY 62</u>
Army	9.6	10.2	11.0	13.6	15.9
Navy(Inc. USMC)	.8	3.1	8.6	7.7	11.4
Air Force	5.6	13.3	23.9	38.6	46.1
TOTAL	16.0	26.6	43.5	59.9	73.4

	<u>Reductions in Associated Costs (Millions)</u>				
	<u>FY 58</u>	<u>FY 59</u>	<u>FY 60</u>	<u>FY 61</u>	<u>FY 62</u>
Army	39.8	55.0	75.5	119.0	164.0
Navy(Inc. USMC)	14.8	27.1	41.4	71.0	91.1
Air Force	30.1	56.2	102.0	153.0	174.0
TOTAL	84.7	138.3	228.9	343.0	429.1

Similarly dollar gains will accrue in the materiel and maintenance areas. These gains include base support and equipment costs associated with reduced manpower and savings in supply and services.

In the Army with optimum retention, it is estimated that savings associated with reduced personnel (base support, supplies, services) will exceed \$111 million. A 10% cutback in maintenance technicians will save \$2 million. Better use of minor equipment and supplies by individuals and units will reduce expenditures by 5% or \$7 million. A 5% cutback in spare parts and labor requirements for maintenance will save \$20 million. A 3% reduction in depot maintenance will save \$4.5 million. A 10.5% reduction in transportation will save \$3 million.

In the Navy, under optimum conditions, base support reductions and reduced procurement of spare parts will exceed \$237 million. Reduced industrial assistance will save over \$22 million. Money saved through less waste, loss, and damage to supplies will equal \$4 million. A 5% savings in annual construction financing will amount to over \$9 million. In the Marine Corps with optimum retention, reduced Contract Technical Services will save \$624 thousand. Reduced consumption of stocks will amount to \$893 thousand. Reduced temporary duty for schools will amount to \$75 thousand. Reduced organization maintenance expenses will save over \$781 thousand.

In the Air Force, under conditions of optimum retention, skilled personnel would reduce supply errors, eliminate misshipment cost, and reduce cost of redistribution of excesses among bases and depots. A 1% improvement would save \$38 million. Reduced base requirements would save \$7.8 million. Savings in depot man-hours would exceed \$17 million. Reduced requirements for Contract Technical Services would save \$77 million. Reductions in flying hour programs would save \$45 million. Improved airlift efficiency would save \$93 million now procured commercially.

Table VIII is a recapitulation of service computed dollar savings in the materiel and maintenance areas based on the assumption that retention will improve at a constant rate and reach optimum by 1 July 1961.

TABLE VIII

BUDGET GAINS (MATERIAL AND MAINTENANCE)
(in millions)

Military Dept.	<u>FY 58</u>	<u>FY 59</u>	<u>FY 60</u>	<u>FY 61</u>	<u>FY 62</u>
Army	18.3	39.7	61.2	92.6	128.5
Navy (Inc. USMC)	4.4	77.0	239.9	255.4	279.4
Air Force	10.9	91.3	243.4	253.6	249.7
TOTAL	33.6	208.0	544.5	601.6	657.6

Establishment of Escrow Account

In the past, improvements resulting from increased retention have not been clearly identified and dollar savings have been expended in other areas.

It is considered appropriate to identify and control the gains by establishing an "Escrow Account" for each Service which will consist of the gains in personnel spaces accruing as a result of increased retention. Withdrawals from the escrow account could be authorized by the Service Secretaries when justified by new commitments, changes in technology, or reductions in retention experience. The bookkeeping method associated with the escrow principle would provide an accurate and convincing measure of the effectiveness of retention programs. Accordingly, the Committee recommends that:

- Each Service establish a definite line of demarcation between personnel resources assigned to training effort and those identified with operating and support forces.

- Each Service establish an "Escrow Account" under the direct and positive control of the cognizant Service Secretary. (Separate accounts will be essential since each Service has different problems and has a different gap to close between current and optimum retention experience).

. Each Service observe retention experience closely and reduce training effort as retention improves.

. Services transfer personnel spaces thus gained to the Escrow Account. (Those spaces must not be diverted automatically to the operating and support forces and new input must not be programmed to fill these spaces).

. In exceptional circumstances the Service Secretaries may authorize withdrawals from the Escrow Account under conditions prescribed by the Secretary of Defense.

. Withdrawals would be justified and authorized only when a new operational commitment is imposed on that Service or it experiences a change in technology or reduction in retention experience which would require an extension of training effort.

. Any such withdrawals from the Escrow Account would be charged to Operations or training effort without change in total Service authorized strength.

. The sum of credits to the Escrow Account during a fiscal year would be an accurate and convincing measure of the effectiveness of retention programs.

. Withdrawals from the Escrow Account during this same period would represent unknown factors arising after the initial computation of requirements and would be segregated from the true effect of retention programs.

. Savings during an accounting period would be measured in personnel spaces authorized but not filled -- and converted into funds appropriated but not spent.

COST OF COMPENSATION PROPOSALS

Budget Costs

The Services have computed the projected increased budget costs of the compensation proposals alone as recommended by this

Committee. These computations are based on Fiscal Year 1958 military strength by grade and on the assumption that no changes occur in planned retention. These costs represent additive costs of the proposed compensation system without regard to the effect of compensation on retention rates. Costs include proposed increased amounts to be paid to: active duty personnel (basic and special pay, hazardous duty pay, proficiency pay, social security payments, reenlistment bonus costs, separation pay, and Reserve Officer Term Retention Plan Payments); reserve personnel in drill pay status; and retired personnel. Costs which would result from improved housing, revised quarters allowances, and pay for remote and isolated duty have not been included. Table IX below is a projection of the estimated added budget costs of the Committee's compensation proposals for Fiscal Years 1958 through 1962.

TABLE IX
PROJECTED ADDED COSTS
ALL SERVICES COMBINED
 (Millions of Dollars)

	<u>FY 58</u>	<u>FY 59</u>	<u>FY 60</u>	<u>FY 61</u>	<u>FY 62</u>
	<u>1 Jan Eff Date</u>				
<u>BUDGET COSTS</u>	<u>316.8</u>	<u>601.2</u>	<u>589.1</u>	<u>634.3</u>	<u>662.4</u>
1. Active Duty Personnel	274.9	500.1	485.1	524.1	537.9
2. Reserve Personnel in Drill Pay Status	17.7	49.1	50.0	50.1	51.1
3. Retired Personnel	24.2	52.0	54.0	60.1	73.4

Budget Gains

Based on the best professional judgment of the Services and on past experience with pay legislation, it is felt that changes in the basic compensation system alone as recommended by this Committee will have an immediate effect on retention and that the