

# CRESAP, McCORMICK and PAGET

*Management Engineers*

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Mr. Marriner S. Eccles  
Federal Reserve System, Board of Gov.  
The Shoreham  
Washington, D. C.

Dear Mr. Eccles:

This pamphlet, recently prepared by our firm, is being mailed to a representative group of persons who might logically have an interest in the Hoover Report.

We are confident you are among those who will find just such a time-saving condensation helpful.

Particularly because so much of the most important legislation growing out of the Hoover recommendations is yet to be considered by Congress, I hope you will have an opportunity to read through this Summary and that it will prove useful to you.

Sincerely,

*Cresap, McCormick and Paget*

A Summary of  
**THE HOOVER REPORT**

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Prepared as a public service by  
**CRESAP, McCORMICK and PAGET**  
*Management Engineers*

NEW YORK—CHICAGO

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*“...an unprecedented approach to an unprecedented problem.”*

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## I N T R O D U C T I O N

There are few matters of national concern on which there is greater unanimity of interest and approval than the Hoover Report . . . today's popular reference to the extensive studies made by the Commission on Organization of the Executive Branch of the Government under the direction of the Honorable Herbert Hoover.

The phrase "Hoover Report" has already passed into the language as a synonym for orderly investigation and constructive recommendation. Despite this, few except scholars have any clear picture of what the Commission actually proposed.

Cresap, McCormick and Paget was privileged to execute a major project for the Hoover Commission. In this capacity, the firm acquired firsthand familiarity with the work and workings of the Commission, and can testify that the manner in which the Commission organized its assignment from Congress brilliantly illustrates how to set about a task of analysis and recommendation. The Hoover Report is today's outstanding demonstration of the use of objective counsel; of the role of the management engineer.

We recognize the hazard of attempting to condense some 2 million words into a few pages and we further appreciate that, for better or for worse, conditions in Federal Government are in a constant state of flux. Nevertheless, for the reasons outlined above, and because the firm of Cresap, McCormick and Paget has a genuine hope that all the Hoover recommendations will eventually become effective, this summary pamphlet has been prepared as a convenient guide for interested citizens.

## THE APPROACH

**Bipartisan Sponsorship.** The Commission on Organization of the Executive Branch of the Government was formed late in 1947 at the direction of Congress under the authority of the Lodge-Brown Act. This act called for a survey to induce "economy, efficiency, and improved service in the transaction of public business . . ." It is important to note that the Commission was not charged with responsibility for examining the essentiality of any service—only to ways of increasing efficiency and economy.

Membership of the Commission consisted of twelve men, equally divided among the Republican and Democratic parties. Four members each were appointed by the Speaker of the House, the President of the Senate, and the President of the United States. At its first organization meeting, President Truman, confirming and endorsing the bipartisan approach, proposed the appointment of Mr. Hoover as Chairman, the now Secretary of State Dean Acheson as Vice-Chairman.

Other members were former Civil Service Commissioner Arthur S. Flemming; Ohio businessman George H. Mead; the late James V. Forrestal; Vermont Senator George D. Aiken; businessman and former Ambassador to Great Britain Joseph P. Kennedy; Arkansas Senator John L. McClellan;

Michigan professor of political science James K. Pollock; Ohio Representative Clarence J. Brown; Alabama Representative Carter Manasco; and former Assistant to the President James H. Rowe, Jr.

**Eminent Authorship.** Twenty-four task groups were organized under the leadership of 300 widely-informed, objective-minded citizens who served without pay. This group, assisted by full-time research staffs, included many of the nation's most prominent

Industrialists	Scientists
Educators	Statesmen
Publishers	Consultants
Engineers	Bankers
Public Administrators	

The task forces, in turn, employed the best-qualified specialists and consultants to unearth and organize facts regarding the strengths and weaknesses of the Federal Government. These facts and their subsequent recommendations, determined after sixteen months of intensive study, were thoroughly reviewed and evaluated by the task forces and then by the Commission itself. In total, the Commission's work extended over two years and cost in the neighborhood of \$2 million.

## THE PROBLEM

**Sixty Years of Futile Attempts** to reorganize the Government fully justified this elaborate approach. Since 1887, the time of Grover Cleveland, there have been seven unsuccessful attempts to bring order into the management of the Federal Government. With but two exceptions, every President since Cleveland has vainly sought power to implement such organizational reforms.

**The Vast Growth of Government** in the past twenty years has seriously aggravated the problem. The Federal Government today, after a great depression and a second World War, has multiplied four-fold in size and its expenditures are fourteen times greater than in 1928. But the basic management structure has remained unchanged.

**The Structure is so involved** that it can only be described statistically. Hoover researchers were appalled by the immensity of

*Inventories . . .* \$27 billion in personal property alone. The actual value of real property is unknown.

*Personnel . . .* 2 million employees — twice the total employed by the 50 largest U. S. corporations combined.

*Expenditures . . .* \$40 billion for government — one-fifth of the national income.

*Structure . . .* A total of some 1,800 organizations scattered throughout the world.

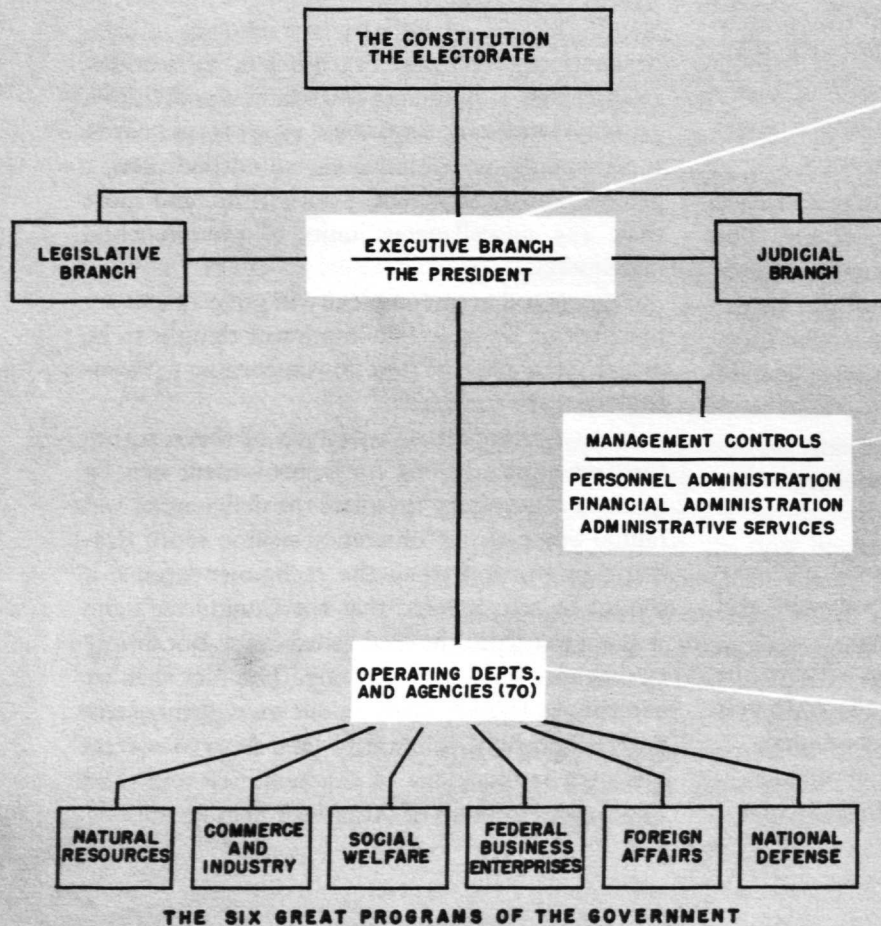
Specifically, the major structure involves 12 cabinet-level departments, 104 bureaus, 12 sections, 108 services, 51 branches, 460 offices, 631 divisions, 19 administrations, 6 agencies, 16 areas, 40 boards, 6 commands, 20 commissions, 19 corporations, 5 groups, 10 headquarters, 3 authorities, and more than 275 miscellaneous units of governmental machinery.

Bigness and even complexity in government are not necessarily evil. The important thing is to be sure that the machine functions according to twentieth century standards.

In any comprehensive analysis of this sort, before recommendations for improvement can be made, it is necessary to isolate the deficiencies and faults. Since these sometimes assume more dramatic proportions than the recommendations, it should be remembered that the Committee's aim was not to carp at the established order, but simply to diagnose before prescribing. The fact that we can thus so frankly criticize our own government and that we will voluntarily take steps to correct our own faults is one of the healthiest and most important essentials of American democracy.



## THE LOCALE OF THE SURVEY



1 *Strengthen Top Management*

2 *Sharpen the Tools of Administration*

3 *Eliminate Waste, Duplication, and Confusion in the Administration of the Six Great Programs*

## THE BASIC FINDINGS

### *a three-part program of improvement*

#### **1 Strengthen Top Management**

"Top Management," in this case, refers to the executive branch of the government. The Act creating the Hoover Commission specifically restricted the study to this area. This means the Office of the President which includes the President, the White House staff, and the President's Cabinet composed of appointed heads of 12 executive departments. It also involves those agencies and staffs which exercise control over personnel, finances and the various administrative services such as purchasing. Lastly, there are the operating departments concerned with, as the chart on the preceding page shows, the six major programs of Federal Government.

It is in these areas, then, that the Hoover Commission suggested a three-part program of improvement.

The President and his key assistants, said the Commission, lack authority to organize and administer the executive branch effectively. The President cannot delegate power of attorney, is bound by law to completely outgrown management practices designed and effective in the days of George Washington. Peculiar as it may seem, the President does not possess a standing invitation

from Congress even to request changes in law in order to create sounder management.

#### **2 Sharpen the Tools of Administration**

Not only are virtually all management controls antiquated, but means are lacking to provide leadership either in improving the performance or reducing the cost of government. The rigidity of law and tradition have kept to a minimum the adoption of modern techniques of administration in such basic areas as employment, budgeting, and purchasing.

#### **3 Eliminate Waste, Duplication, and Confusion**

The major programs of Government are riddled with waste, duplication, confused organization, and inadequate supervision.

Here are some examples:

- 29 agencies make loans
- 34 agencies acquire land
- 16 agencies are involved in wild  
life preservation
- 28 agencies administer welfare
- 14 agencies are concerned with forestry
- 12 agencies participate in home and  
community planning.

*These conditions result in an avoidable waste  
of some \$4 billion annually.*

## STEP ONE: *Strengthen Top Management*

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### RECOMMENDATIONS

The Hoover Commission formulated 27 specific recommendations to clarify and expand the role of the President in the management of the Executive Branch. These center around four principles, each requiring Congressional endorsement.

**1. Grant the President Permanent Reorganization Powers.** Realizing the tedious process of legislative machinery, the Commission suggested that when the President submitted a plan of reorganization, such plan should become effective within 60 days of its submission unless voted down by a majority of both Houses. Modified authority was granted in 1949, specifying that either House could veto, but terminating the authority in 1953.

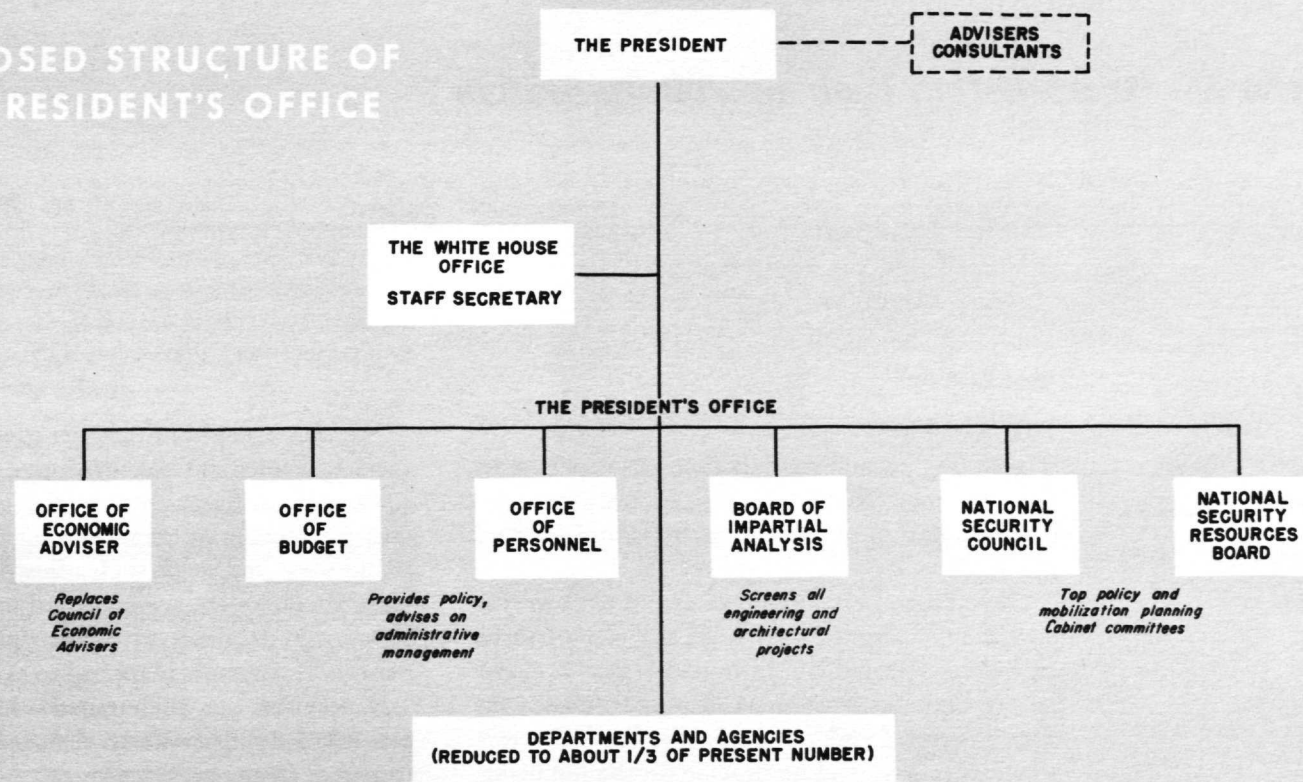
**2. Remove all Restrictions on the Organization of "The President's Office."** This involved four basic assertions: (a) that all authority be vested in the President, not his staffs; (b) that key appointments should be made by the President; (c) that funds for employment of consultants from outside of Government should be provided; and (d) that

new staffs, assistants, and committees should be established to meet change as the President elects. Also urged was the appointment of a staff secretary who would keep fully informed on all matters requiring the day-to-day attention of the President.

**3. Liberalize the Authority of Department and Agency Heads** as to (a) the selection of principal subordinates; (b) the assignment of functions and internal organization; and (c) the assignment of funds. Thus, give them the power in their own names to appoint, assign, and pay their key assistants. No longer would a Cabinet member be responsible for subordinate Chiefs reporting by law to Congress rather than to him.

**4. Inaugurate a Broad Program of Reform,** aimed at (a) sharpening the tools of management in the fields of personnel, budgets, accounting, and general administrative services, and (b) re-grouping government functions by major purpose. Means must be found to reduce these agencies from 74 to about 20.

# PROPOSED STRUCTURE OF THE PRESIDENT'S OFFICE



## DISTRIBUTION OF MANAGEMENT AUTHORITY

	THE PRESIDENT	THE CONGRESS	DEPARTMENT HEAD
Regarding Organization	Develops and proposes plans	Right of veto	Implements, assigns responsibility
Regarding Funds	Prepares and submits budget	Appropriates	Assigns and controls expenditure
Regarding Policy Executives	Nominates	Senate confirms	—
Regarding Other Executives	Selects for his own office	—	Selects for his own department

## STEP TWO: *Sharpen the Tools of Administration*

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### PERSONNEL ADMINISTRATION

#### THE PROBLEM

The hiring, promotion, and dismissal of personnel is rigidly controlled by centralized, ritualistic procedure based in large part on a Statute enacted in 1883.

Government executives in hiring a new employee are restricted by law to a choice of three candidates selected by an outside agency (Civil Service Commission) from a list of individuals who were examined and graded on the basis of a test which may have had no bearing on the job being filled. Candidates for appointment apply and are examined on an average four to fourteen months prior to their consideration, and at the time of their examination they have no idea in which of the 74 major agencies they may work or at what time in the future an opening may occur. The chances are that no one interviews them. These and other such impersonal and unimaginative practices make Government unable to compete for the best qualified personnel.

Salaries, except in the lower grades, are insufficient to attract and hold executive and specialized personnel. Adjustments in pay scales to meet changing economic conditions lag far behind those in industry, and when such adjustments are made, clerical employees are increased in much greater proportion than executive personnel, since a standard dollar increase is applied to everyone.

Supervisors are discouraged — indeed, actually prevented by law — from demanding good performance from employees due to the maze of regulations which govern promotions, dismissal, and efficiency ratings.

Little organized training in the field of management is provided by Government. The principal means by which career executives rise is through long years of service rather than demonstrated executive competence.

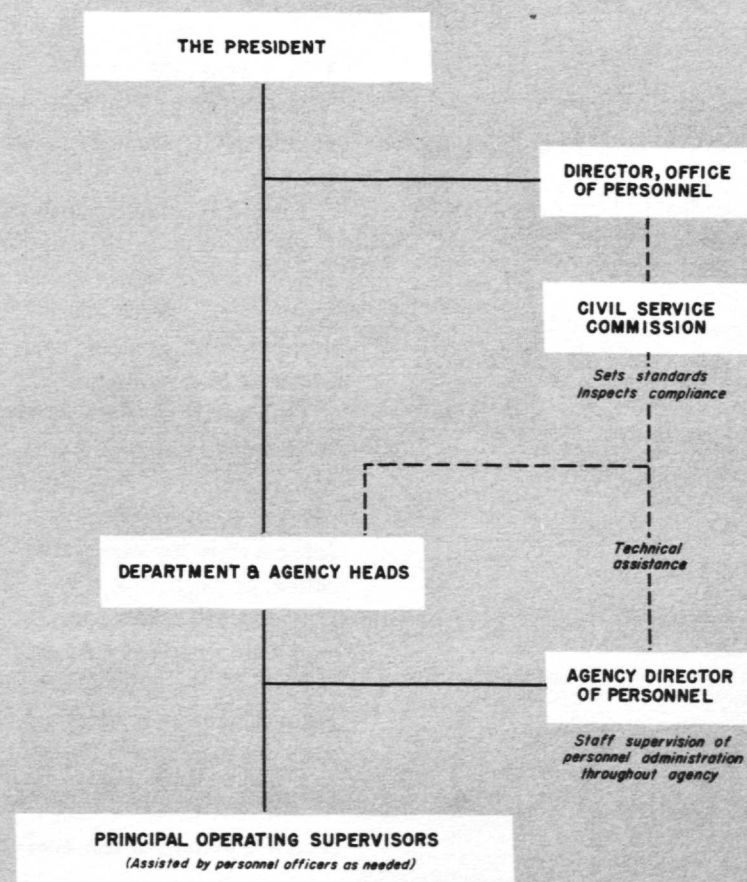
Personnel administration is vested in a three-headed commission which lacks executive direction. Thus, aggressive direction is lacking.



### THE SOLUTION IN PRINCIPLE

1. Decentralize the recruitment, selection, and placement of employees to operating agencies under general standards. Encourage a personalized approach so that Government can be competitive in seeking the best talents.
2. Raise pay levels in the upper brackets and authorize the President to keep pay scales adjusted to economic conditions. Some action has been taken in this regard, but Congress limited the number of positions which can be paid top salary to only 400 out of 2,000 positions, all of which compare in importance to the presidency of a major commercial enterprise.
3. Revamp procedures governing promotion, retention, and dismissal of employees so as to reward good performance and penalize poor performance.
4. Permit employee participation in the formulation of personnel policies and practices. The Government's own labor relations need strengthening.
5. Reorganize the central personnel agency under single administration and emphasize its leadership role.

## ORGANIZATION OF A CENTRAL PERSONNEL AGENCY



## STEP TWO: *Sharpen the Tools of Administration*

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### FINANCIAL ADMINISTRATION

#### THE PROBLEM

The Federal budget and accounting system is an accretion of practices based on laws dating back to 1879.

Financial administration suffers above all else from the absence of a single authority with legal power to develop or install a comprehensive system. Today, there are no less than three highly autonomous agencies, each responsible for some phase of budgeting and accounting.

One of these, the General Accounting Office, is completely outside the executive branch, reporting directly to Congress, not the President. The GAO has authority over administrative accounts, far exceeds its designated role of auditor. This office, though not responsible to the Treasury, still prescribes the form in which administrative accounts shall be kept; establishes volumes of rulings under the guise of interpreting the law, which rulings have the effect of law itself in so far as the payment of salaries and procurement of

goods and materials are concerned.

The Treasury Department actually has a small role in financial administration, being mainly concerned with the collection of revenues and the maintenance of revenue accounts.

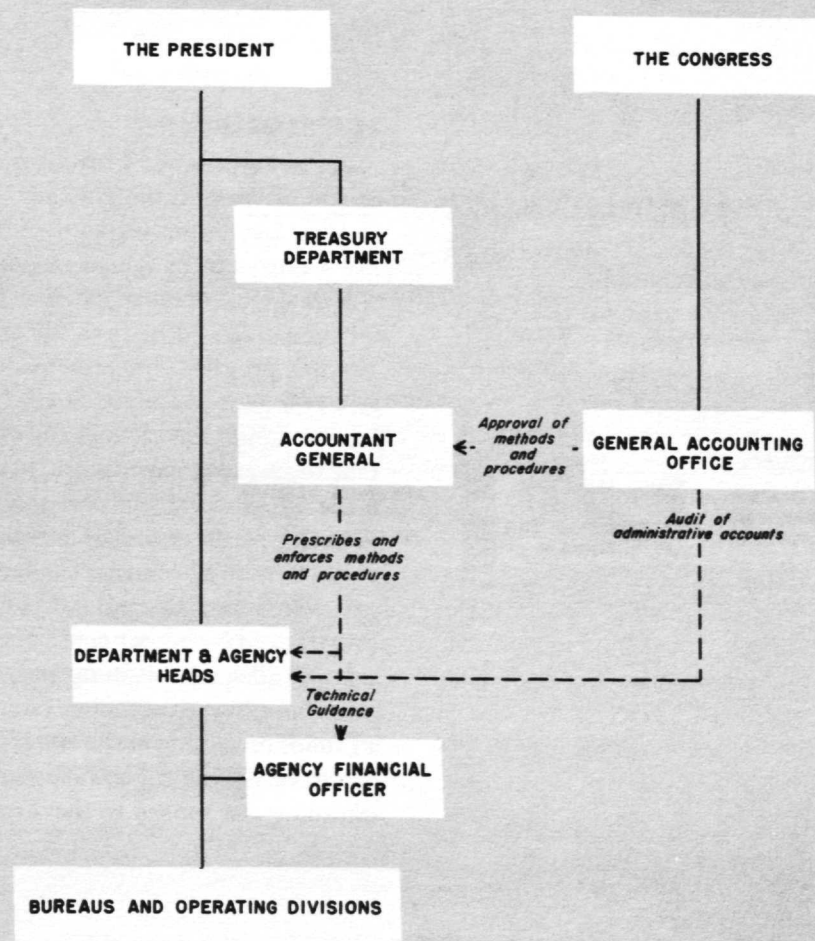
Budgets and accounts do not reveal the work accomplished. This is due to the fact that current expense and capital outlays are intermingled plus the fact that some agencies procure their funds from as many as twenty-seven different Congressional appropriations. It is virtually impossible to compile a current and complete statement for such an agency since accounts are kept by individual appropriation.

The fact underscored by studies is that budgeting and accounting has been relegated in Federal management to a lowly position, and there seems to be a total lack of interest among top management in a precise knowledge of the use of the budget as a management tool.

## THE SOLUTION IN PRINCIPLE

1. Adopt a "performance budget" setting forth how funds are to be spent in terms of functions, projects, and services.
2. Simplify the appropriation structure and establish a uniform system of accounts for use by all agencies so that comparisons between agencies would be facilitated and meaningful consolidations of agency expenditure figures possible.
3. Establish an Accountant General in the Treasury to prescribe accounting methods and procedures. Reorganize the Treasury to exclude such nonfiscal functions as the Coast Guard, Narcotics Control, and General Purchasing. Include such related functions as the RFC, the Export-Import Bank and the FDIC.
4. Limit the General Accounting Office audits to spot checking documents by the decentralized field offices. By confining the GAO to its logical role of post audit and by proper administration of a spot check system, not only would millions of dollars of payroll be saved, but it would no longer be necessary to transport millions of expenditure documents to Washington each year.

## THE PROPOSED ACCOUNTING ORGANIZATION



*Note: The President's staff control over budgets is exercised through the Bureau of the Budget as at present*



## STEP TWO: *Sharpen the Tools of Administration*

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### ADMINISTRATIVE SERVICES

#### THE PROBLEM

... **in re Purchasing.** There is no standard catalog or file of specifications which Government purchasing agents can use to determine what is or is not a fair price or which could serve as the basis of interagency comparison. The Navy began work on such a record in 1914 but it is said that only "limited progress" has been made toward preparation of a general United States Commodity Catalog covering both civilian and military purchases. Due to excessive paper work, half of the purchases made by Government cost more to process than the value of the materials purchased.

Even more alarming is the fact that storerooms and warehouses throughout the Government are overstocked by 70 per cent. This is due to the absence of adequate planning and control of requirements and to the custom in Government to spend all funds remaining at the end of the fiscal year for furniture, equipment and supplies in order to avoid returning any money to the Treasury.

Such fantastic conditions exist because, up to now, there has been no staff service to assure that the vital contracting, traffic and warehousing functions involving 127,000 employees are properly conducted.

... **in re Building Maintenance.** The Government occupies some 60 million square feet of space and spends \$200 million annually on rent and utilities. This does not include military or post office buildings. It is said that no one knows precisely what buildings the Government owns or leases.

... **in re Records Maintenance.** Government records occupy about 18 million square feet of office space and are housed in \$154 million worth of filing equipment. The striking fact is that one-half of these records are no longer active but due to an unplanned program of weeding out and transfer of inactive records, valuable space and first-rate filing equipment are being used to house them.

### THE SOLUTION IN PRINCIPLE

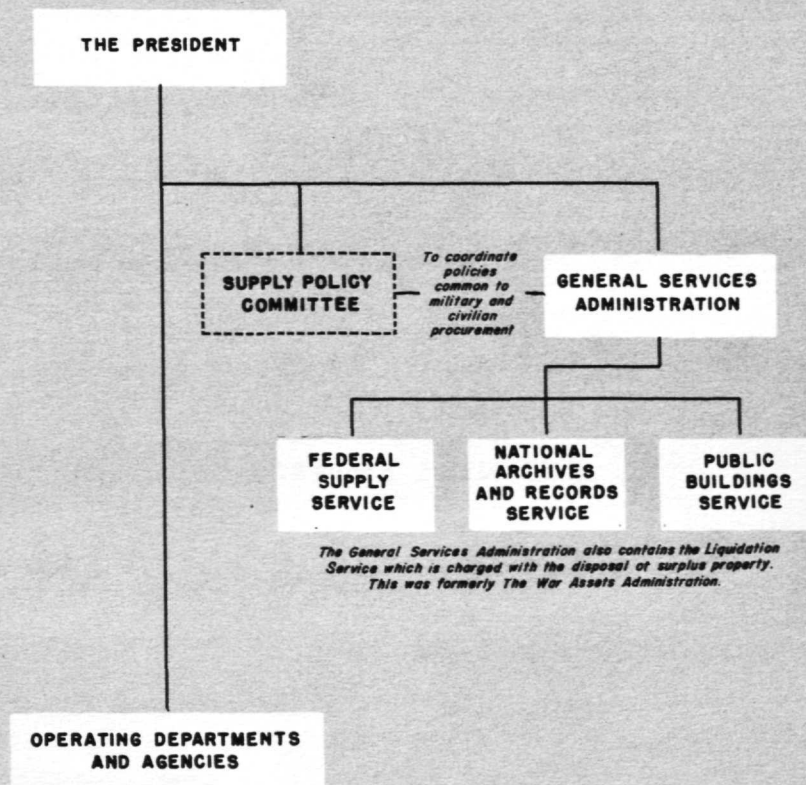
The Hoover Commission proposed and the Congress has acted upon the creation of an Office of General Services to exercise central coordination over supply, building maintenance, and record maintenance. This new agency will have as its first over-all duty that of staff research to develop modern practices with respect to contracts, traffic management, warehousing, and stock control.

It will also supervise the care and operation of office buildings and the storage and destruction of obsolete goods.

Somewhat more specifically, this agency would make all purchases "in common use" by government agencies; operate a nationwide system of integrated storehouses; check the propriety of shipping charges; build up a master set of specifications for buying; complete the "single commodity catalog," and perform many similar functions.

A unit of the office, the National Archives and Records Service, would set up policies and control records offices for all civilian agencies, except the Post Office.

## ORGANIZATION OF THE ADMINISTRATIVE SERVICES



*This organization was created by Congress on June 30, 1949.  
It is estimated that this coordination of effort will result  
in annual savings of \$250 million or more.*

**STEP THREE:** *Eliminate Waste, Duplication, and Confusion  
in the Administration of the Six Great Programs*

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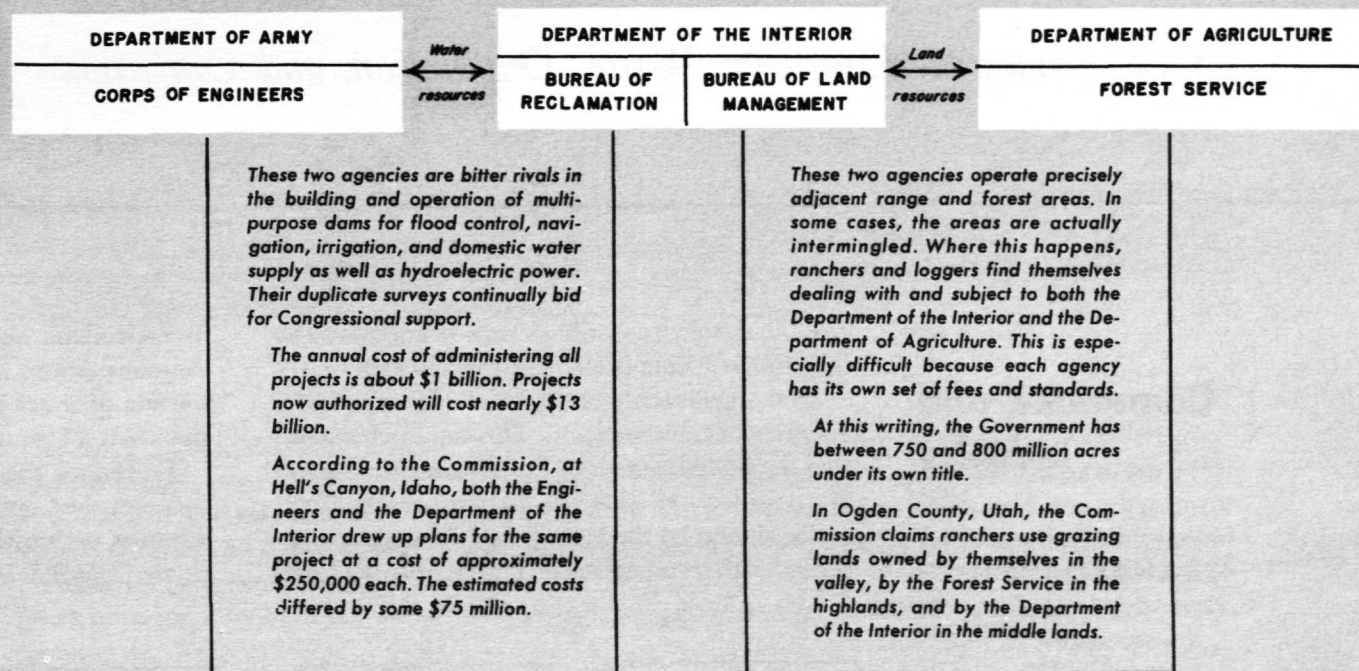
- NATURAL RESOURCES**.....conservation and development of water, land,  
mineral, and forest resources.
- COMMERCE AND INDUSTRY**.....aids to and control over transportation, labor, and  
agriculture.
- SOCIAL WELFARE**.....administration of veterans' benefits, social security,  
public housing, public health and education.
- BUSINESS ENTERPRISES**.....the postal service, electric power plants and the  
lending and guaranteeing of funds.
- FOREIGN AFFAIRS**.....international diplomatic relations and foreign aid  
and occupation programs.
- NATIONAL DEFENSE**.....training, equipping, and regulation of the Army,  
the Navy, and the Air Force.

*The Hoover Commission did not evaluate the policy aspects of these programs,  
but examined only into the efficiency and economy of their administration.*

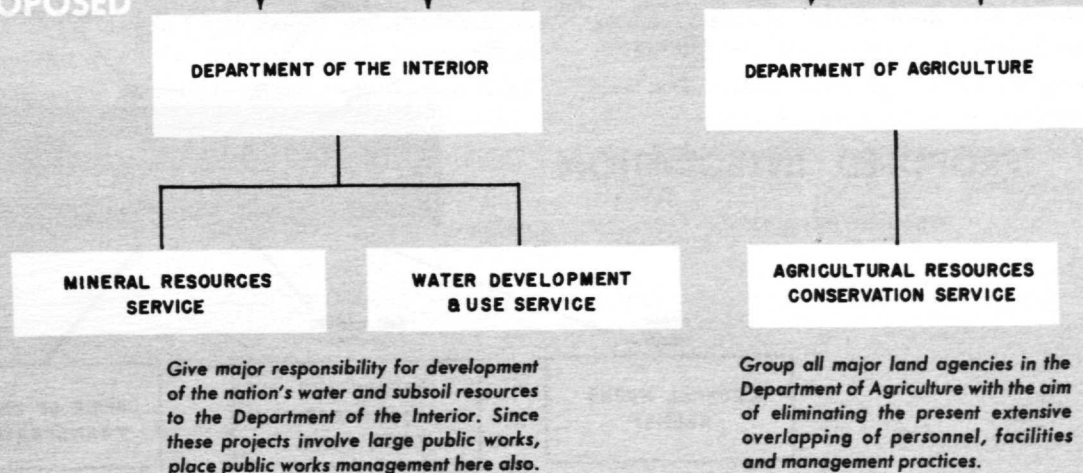
# Natural Resources

*A study in Overlapping and Duplicating Functions*

## PRESENT



## PROPOSED



## STEP THREE: *Eliminate Waste, Duplication, and Confusion*

### Commerce and Industry

#### TRANSPORTATION

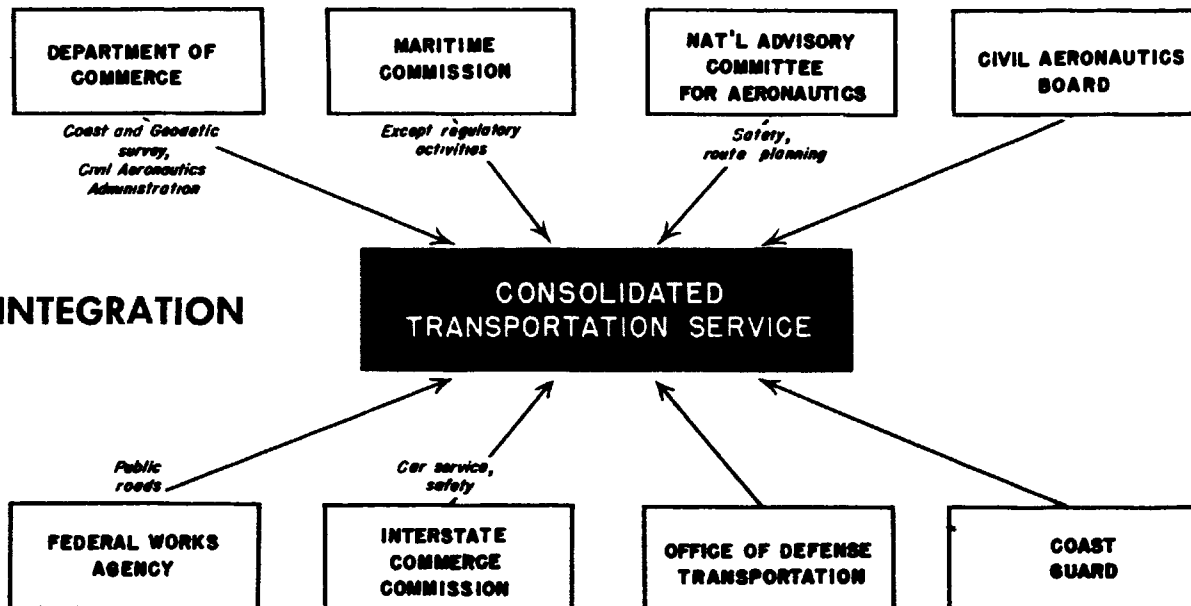
*A Study in Dispersion*

Possibly the most notorious situation uncovered by the Hoover Commission is that which exists in the Federal organization for the development and safeguarding of transportation. This can be characterized as a study in uncontrolled dispersion. The Act of 1903 declared that the Department of Commerce should be the central Federal agency concerned with transportation. Today, only the Coast

and Geodetic Survey and the Civil Aeronautics Administration are in the Department, while outside of it are all the other agencies shown on the chart of proposed reorganization below.

To reduce the \$1 billion now spent by these agencies, the Commission recommended the establishment within the Commerce Department of a single Consolidated Transportation Service.

#### PROPOSED INTEGRATION



## **LABOR**

The Department of Labor presents an interesting study in disintegration. During the past decade, four of its principal functions have been transferred out to other agencies. Today, with 3,400 employees, it is the smallest of the executive departments. Its top management is geared to super-

vise an agency about 100 times its size. The Hoover Commission proposes that the original stature of the department be restored by the return of functions it formerly possessed, including the employment service, employee compensation activities, and selective service.

## **AGRICULTURE**

This \$834 million department with 82,000 employees suffers from a loosely-knit organization structure in which authority and responsibility are widely diffused and the Secretary is expected to exercise close supervision over no less than 20 independent major activities. The consequence is duplication internally and unjustifiable confusion. To

eliminate the resultant confusion, waste, and irritation, the Hoover Commission recommended that the Department be reorganized into eight major divisions instead of 20 and that a single state council be established in each state to replace the present numerous advisory committees. Importantly, an overall conservation agency was proposed.

## **REGULATORY AGENCIES**

There are now nine regulatory agencies such as the Federal Trade Commission and the Federal Communications Commission which possess wide discretionary powers to make and enforce rules affecting commerce and industry. Since these bodies are created by law, their membership and functions are largely independent of any control by the President. The Commission found these agen-

cies lacking leadership, characteristically preoccupied with details and uncoordinated consideration of individual cases. The Commission suggested that one man in each agency be designated the chief executive for internal administration and that all purely executive functions, such as safety, car service, and route planning be transferred to the regular operating departments.

## STEP THREE: *Eliminate Waste, Duplication, and Confusion*

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### **Social Welfare**

#### **PUBLIC HEALTH AND MEDICAL SERVICES**

##### **THE NEED**

There are 24 million beneficiaries in the United States currently eligible for Federal medical care. Some 40 agencies and 4 major departments spending \$2 billion per year now administer such service.

Evidence of mismanagement is found in the duplication of hospital facilities. The Commission found that 35 per cent of Federally-financed bed capacity — or nearly 100,000 beds — were idle. Yet, over \$1 billion additional capacity is planned.

Construction costs were found to be excessive, ranging from about \$20,000 to \$51,000 per bed compared to about \$16,000 in private hospitals. Even discounting for special circumstances surrounding veterans' care, the spread is too great.

Hospital administration is poor with an excess of service being rendered. In Army and Navy hospitals, for example, appendectomy cases are kept 20 days, compared to less than 8 days in private hospitals.

According to the Commission, the Veterans' Administration has not taken advantage of existing legal machinery which approves Federal aid to non-Federal community hospitals.

##### **THE SOLUTION**

Although the decision was not unanimous, the Commission recommended that Congress authorize a United Medical Administration to bring the general hospitals of the armed forces in the continental United States under central management. This would also include the hospital functions of the Veterans' Administration, as well as the facilities and personnel of the Public Health Service.

An Administrator would supervise the operation, assisted by an Advisory Board, composed of the Surgeons General of the armed forces and the Administrator of the Veterans' Administration.

The commission suggested that highest priority go toward greater emphasis on research and prevention as a means of reducing the necessity for hospitalization.

Steps were recommended to compel the use of non-Federal hospitals on a reimbursable basis, particularly in smaller and more remote communities.

Finally, among the basic recommendations to curtail waste, the Commission unanimously urged Congress to define the rights and priorities of those entitled to Federal medical care.

## VETERANS' AFFAIRS

While the Commission admitted that the Veterans' Administration had been put under a tremendous and sudden burden by the addition of nearly 15 million World War II veterans eligible for its services, the fact is that the Veterans' Administration came in for most severe criticism.

It has been said that the VA represents "bureaucracy at its worst."

The Report contains many phrases like "conflicting lines of authority," "excessive number of staff officers," and "the entire structure has become too complicated . . . an excess of voluminous writ-

ten instructions on internal methods and procedures which defy intelligent execution." At the time of the survey, the VA was employing 192,000 persons and spending \$5.3 billion yearly.

The vast VA insurance program was singled out for failing to use mechanical office equipment, for taking five times as long to pay a death claim as private companies, and using four times more personnel to maintain the accounts.

The Commission recommended a thoroughgoing internal reorganization including the mechanization of methods.

## SCIENTIFIC RESEARCH

In view of a survey made just prior to the Hoover survey by a group of eminent scientists, the Commission did not make a thorough study of this increasingly important area. The report does say that no satisfactorily coordinated research program has yet been realized. It did endorse the desira-

bility of creating, under the President, a National Science Foundation to coordinate all Federal research efforts, including atomic energy development, as well as developments in agriculture, public health, and the armed forces. Such a foundation will be created.

## SOCIAL SECURITY

The old age and survivors insurance program requires normal collections of \$3 billion and disbursements at present of about \$550 million. To this, add \$800 million for grants-in-aid for education, for old age assistance, for the blind, and for dependent children. Five separate programs bear upon support in old age. Education, including that for veterans, costs over \$2.5 billion every year.

Due to the importance of these programs, the Commission proposed the creation of a new De-

partment of Social Security and Education with full Cabinet status. Under this proposal, the Federal Security Agency would be abolished with its labor functions going to the Department of Labor, with the Food and Drug Administration going to the Department of Agriculture, and the Public Health Service to the proposed United Medical Administration. Supervision over the welfare of the Indians would be transferred to the new Department from the Department of the Interior.



## STEP THREE: *Eliminate Waste, Duplication, and Confusion*

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### **Federal Business Enterprises**

**There are over 100 enterprises in which the Federal Government has invested \$20 billion and for which it has authorized another \$14 billion. There are three principal groups.**

#### **TO LEND, GUARANTEE, AND INSURE**

There are 40 agencies employing 35,000 people in this category. This includes the numerous farm credit entities, such as the Federal Crop Insurance Corporation and the Commodity Credit Corporation. Also, the many housing activities: Federal Housing Administration, Public Housing Administration, and others. Also, the Reconstruction Finance Corporation, the Federal Reserve Banks, Veterans' Life Insurance, and still others.

#### **TO SUPPLY ELECTRIC POWER AND IRRIGATION**

The Government now operates 46 hydroelectric and ten steam power plants. In 1947, thirty-seven more were under way and there are 79 more planned for construction by 1960. This was an area in which there was considerable difference of opinion among the Commissioners. Generally, the Commission opposed Government production, transmission, and sale of electric power.

#### **MISCELLANEOUS BUSINESS ENTERPRISES**

This includes a wide variety of activities, by far the most important of which is the Post Office. However, it also includes such diverse elements as the Washington National Airport, the Alaska Railway, The Panama Railroad Company, The Virgin Islands Corporation, Federal Prison Industries, Inc., the U. S. Maritime Commission, and the Puerto Rico Reconstruction Administration.

*The above should not be confused with the activities of either the Department of Commerce or the many regulatory agencies such as the Interstate Commerce Commission. Separate studies and recommendations were made for each of these.*

## FINDINGS

Probably because Government production of electric power cannot be considered apart from the question of policy (which the Commission was not charged to consider), the 40 agencies dealing with lending, guaranteeing and insuring received more concentrated attention.

The impact of these agencies on our economy is partially attested by these figures: Today, the Government guarantees about \$90 billion worth of deposits and mortgages and writes approximately \$40 billion in life insurance.

Widely diverse organizations have been created

to carry on these business-type functions. Some are incorporated, others not. Even those with corporate forms differ greatly with respect to borrowing powers and the number and duties of directors.

The many and varied financial and accounting practices greatly concerned the Commission. Some of the organizations invest in Government securities and are paid interest, the Government thus paying interest on its own money. Frequently, prices or interest charges are insufficient to permit recovery of operating costs.

## RECOMMENDATIONS

The Hoover Commission strongly advised that if Federal business enterprises are to be continued, they should be placed, in so far as possible, on a straight business basis. Here are five of the more specific recommendations.

1. Incorporate all straight-line business activities such as Veterans' Life Insurance and the Washington National Airport. In this connection, establish uniform corporate requirements including like borrowing powers.

2. Discontinue hidden subsidies and require business enterprises to pay their own way. Fees and interest charges should be made to cover operating expenses. Each enterprise should publicly report annually on the extent to which it has failed to

cover interest, on its own investment losses, and on its operating expenses.

3. The RFC should be limited to guaranteeing commercial loans and prohibited from making direct loans except in times of emergency.

4. The Commission, feeling that single administration was essential for the Government's numerous housing activities, suggested a unified housing and home finance agency.

5. Establish a single, unified "Agricultural Credit Service" in the Department of Agriculture to consolidate some 37 corporations now engaged in loaning to facilitate the production and marketing of agricultural products.

## STEP THREE: *Eliminate Waste, Duplication, and Confusion*

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### **Federal Business Enterprises**

#### **THE POSTAL SERVICE**

Since the Post Office is by far the largest of the Federal business enterprises, the Hoover Commission made this the subject of a special study. The Commission reported that the Post Office is

#### **One of the Nation's Largest Businesses**

Its revenues are \$1,300,000,000 annually  
It employs . . . . 500,000 people  
It has . . . . . 42,000 branches  
It owns . . . . . 24,000 buildings  
It operates . . . . 10,000 vehicles  
It handles . . 37,000,000,000 pieces of mail  
per year

Moreover, it performs a banking service for four million depositors who have placed over \$3.4 billion on deposit with the Government. And yet, says the Commission, the Post Office is

#### **One of the Most Poorly Managed of the Nation's Businesses.**

Potentially, the Post Office is a business which

should make its own way. Actually, this is far from true today due to failures in organization, methods, and management.

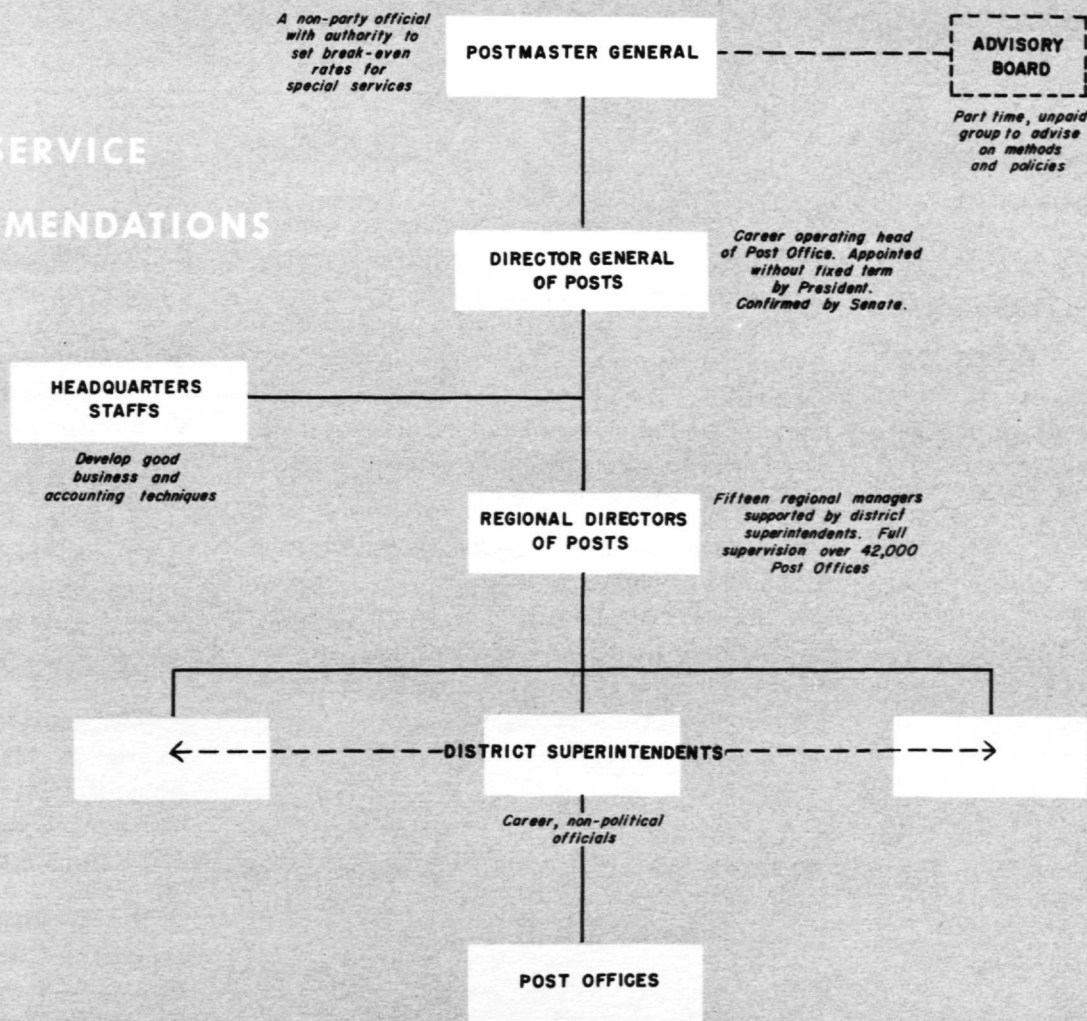
The chief executive of the Post Office (the Postmaster General) and 22,000 of his subordinate postmasters are political appointees. It takes little imagination to visualize the quality and continuity of management which can be achieved under such a system of choosing executives. Not the least of the evils is the loss in morale among career employees.

In business, the top executive rarely directly supervises more than five to fifteen subordinates. In the Post Office, 42,000 subordinates report to Washington. The consequence is an unbelievable bottlenecking of routine transactions.

Methods, equipment, and controls are generally backward and outmoded. There has been little basic change in ways of doing business since 1836 despite continued efforts by Presidents over a period of 40 years. This is only partly due to rigid and outdated legislative restrictions.

# THE POSTAL SERVICE

## PRINCIPAL RECOMMENDATIONS



**PROJECTED:**  
POTENTIAL SAVINGS OF \$140 MILLION THROUGH  
BETTER METHODS AND CONTROLS

## STEP THREE: *Eliminate Waste, Duplication, and Confusion*

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### Foreign Affairs

#### THE PROBLEM

The Commission prefaced its findings on foreign affairs by saying that efficiency and economy were of minor importance compared to the task of marshalling the total machinery of Government to discharge our present global responsibilities. The complexity of the problem is illustrated by the fact that Congress, the President, and 46 of the 74 major agencies of the executive branch are active participants in foreign affairs.

1. Foremost among management's problems is nursing the difficult relationship between Congress and the executive branch. This has been traditionally bad, due to the extremely touchy problems involved, and to the fact that the State Department must conduct certain negotiations in secret without the prior knowledge of Congress.
2. Within the executive branch itself, the most critical problem concerns the President, who although the nation's principal spokesman, today lacks adequate staff to keep him fully informed on foreign affairs and national security.
3. The Secretary of State, as the President's top adviser in this field, is likewise in a difficult position. Involved in the study and analysis of highly

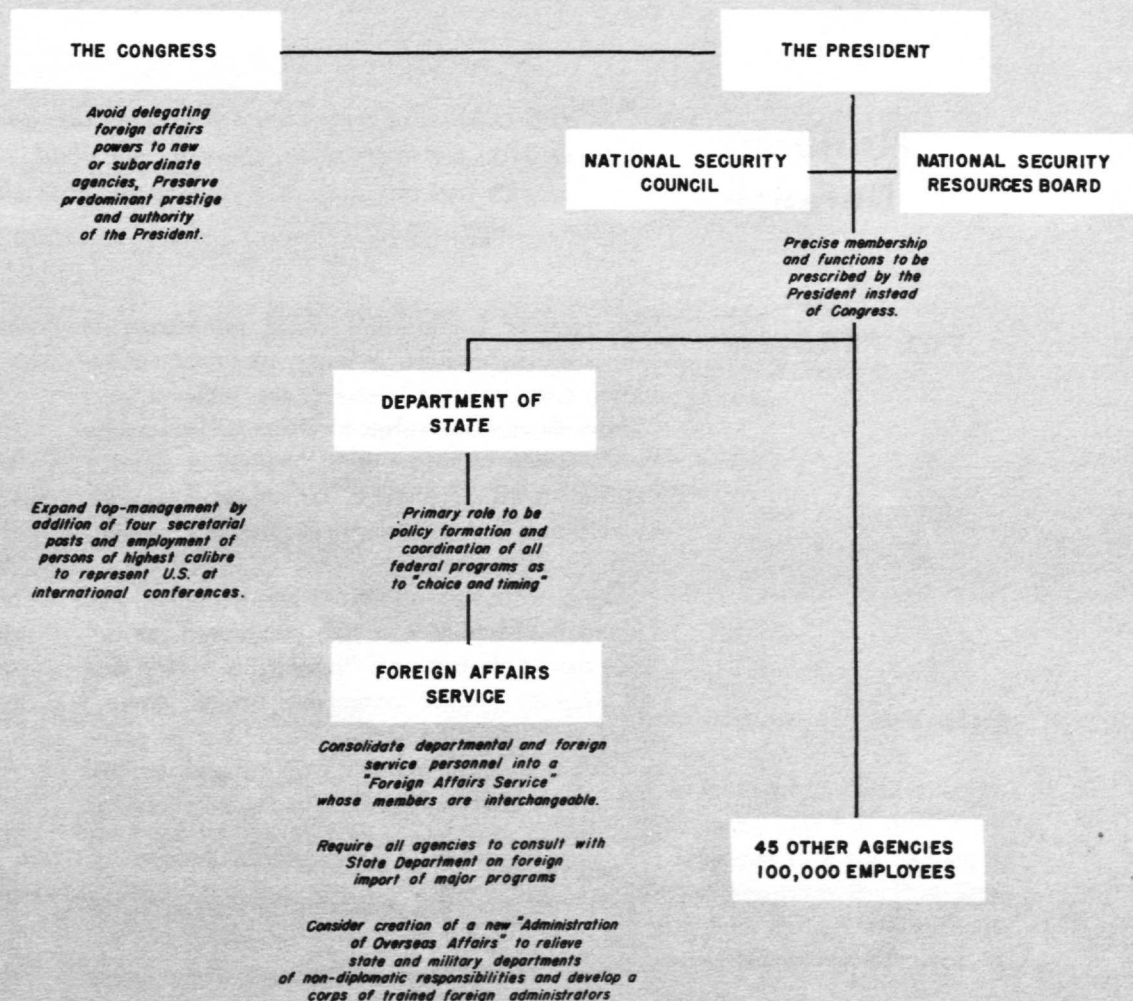
complex and delicate issues, and similarly overloaded with routine, he is responsible for operating a major agency of Government having worldwide facilities. The Commission found this responsibility an impossible task today, further complicated by the Secretary's frequent absence from Washington to attend international conferences.

4. The State Department is largely an aggregation of specialists. Frictions are inevitable. Hostility and jealousy between those located in Washington and those overseas is ill-concealed. Some of the frictions stem from the traditional aloofness of the diplomatic service and its system of selection.
5. The State Department has been deflected from its primary role of policy-making by the detailed administration of the many special post-war programs involving such matters as food, oil, ECA, and European rearmament.
6. Relations with the other 45 non-State agencies are confused, due to an awkward system of organization within the department, under which a number of geographic and economic divisions may be independently working on identical matters.

## THE PROPOSALS

## FOREIGN AFFAIRS

A problem of marshalling the total machinery of government



## STEP THREE: *Eliminate Waste, Duplication, and Confusion*

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### **National Defense**

*The direct expense of our defense program takes one out of every three tax dollars. This amounts to about \$100 for every man, woman, and child, compared to \$2.25 per person before World War I. Many feel this burden is inescapable, but all agree that much can be done to make the necessary dollars go farther.*

#### **THE PROBLEM**

The Hoover Commission could summarize its studies of the national military establishment by stating that the armed services are wasteful, torn by rivalries, and not subject to firm top leadership. With respect to waste, the Commission claimed that the armed services are "far too prodigal with Government funds." A large number of appalling examples were cited.

The basis of appropriations is the budget. The Eberstadt Committee, which conducted the defense survey, found itself "justified in saying that our military budget system has broken down." The Committee discussed such basic matters as the realistic relation of military strength and national policy; as the balance between needs and economic capabilities; and adequate budget control after appropriation.

It further analyzed programs for standardizing, cataloguing, and inventorying property, and also criticized standards of maintenance for military

establishments, as well as methods of keeping accounts.

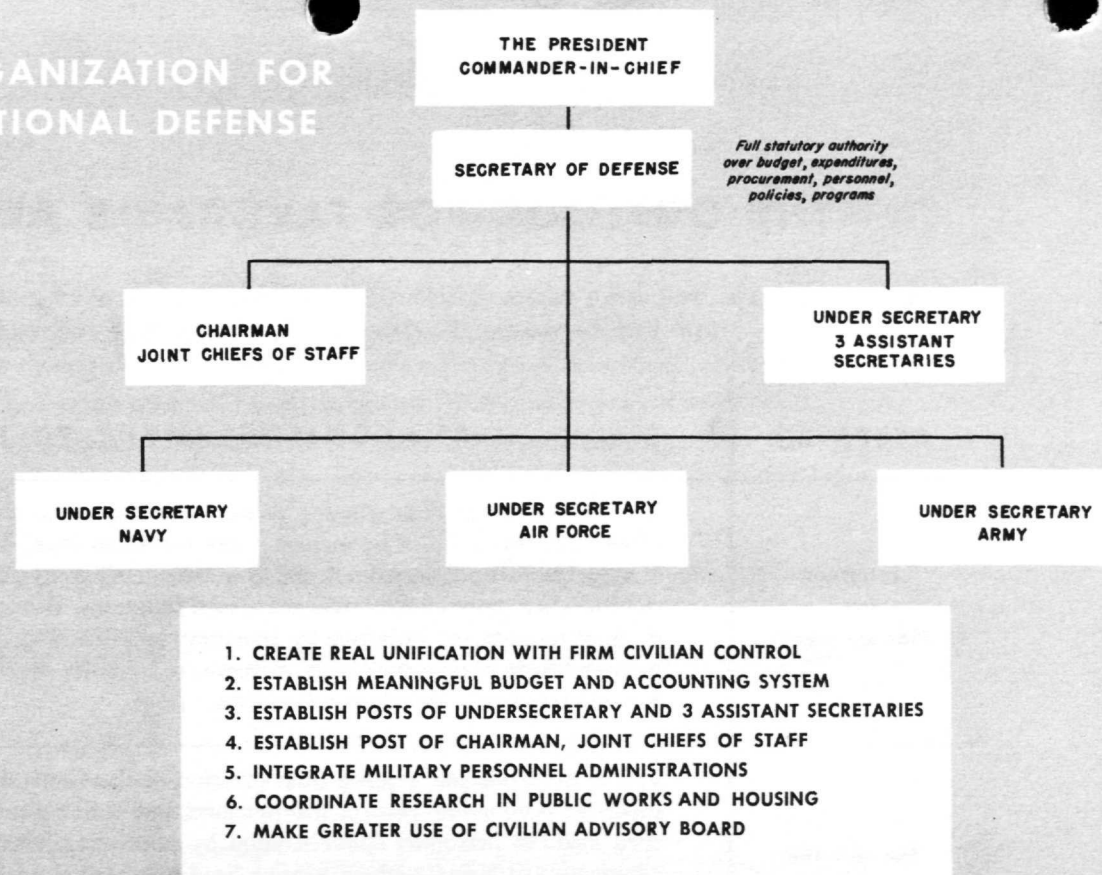
With respect to the Secretary of Defense, the Commission's task force found that his authority was insufficient and that, instead of unification there existed a sort of loose confederation of the three services. As a consequence, there is no strong central control over budgets, expenditures, personnel or organizational matters. The Secretaries of the individual services continue to go their own ways, each having the privilege of reporting directly to the President.

The Commission contended that interservice rivalries, the result of many years of tradition and training, continue unabated. The result is uncoordinated action and insistence upon duplicated facilities such as those mentioned earlier in connection with hospitals. Such conditions help produce an annual waste of at least \$1 billion in administrative costs.



## THE PRINCIPAL PROPOSALS

### ORGANIZATION FOR NATIONAL DEFENSE



This is a simplified chart of the National Military Establishment. There are, within this area, half a dozen basic instruments which were also analyzed. The Joint Chiefs of Staff, the National Security Council, and the Central Intelligence Agency, being more concerned with policy, were not studied as intensively as those having an operational dimension: the Munitions Board, the Na-

tional Security Resources Board, and the Research and Development Board.

In each case, the final proposals came to essentially the same conclusions: vest full power, including power over preparation of the budget, in the Secretary of Defense, subject to the President; overhaul the budget system and set up performance budgets emphasizing objectives and purposes.



## THE OUTLOOK FOR FAVORABLE ACTION

A few first steps have been taken. These consist primarily of removing statutory obstacles.  
But already potential savings of \$1 billion have resulted.

STEPS TO	ACCOMPLISHMENT TO DATE
<p style="text-align: center;"><b>Strengthen top Management</b></p>	<p>The President has been granted power to realign executive agencies, although either House can negate a plan by majority vote within 60 days.. The Security Council and the National Security Resources Board have been transferred to the President's office, giving the President more control over these vital functions. While important, these early steps do little to augment authority by removing senseless restrictions on key executives and their ability to choose their own assistants, to organize their own internal establishments and sub-allot funds provided by Congress.</p>
<p style="text-align: center;"><b>Sharpen the Tools of Administra- tion</b></p>	<p>The most significant step has been creation of the General Services Administration to supervise purchasing, records maintenance, and building maintenance. A small start has been made in personnel administration by improving salaries and making possible the designation of a single administrative head in a central personnel agency. These moves support sweeping changes recommended by the Hoover Commission, but without the grant of specific authority, these may prove to be of small consequence. In the area of financial management, no progress has been made except giving authority to the Secretary of Defense to introduce businesslike budgeting and accounting practices in his immediate departments.</p>
<p style="text-align: center;"><b>Eliminate waste, duplication and confusion</b></p>	<p>It is in this area that the big dollar savings of the Hoover Commission Reports will be realized. Progress and savings are being achieved by strengthening the position of the Secretary of Defense. A beginning has been made by expanding the top management of the State Department and the Post Office. One step has been taken toward creating a Consolidated Transportation Service in the Commerce Department. But the vast majority of the reforms advocated have yet to be authorized.</p>

## 1950 MAY DECIDE THE SUCCESS OR FAILURE OF THE EFFORT

Twenty-five Presidential plans and five major bills were in the foreground of Congressional debate during the 1950 session of the 81st Congress. A score or more had been introduced and many others are being prepared. Most of these will be considered during the calendar year. Here are some of the most urgent:

**SENATE BILL 2213** . . . To take the Post Office out of Politics

**SENATE BILL 2111** . . . To overhaul the Federal Personnel System

**SENATE BILL 2212** . . . To provide modernized financial control  
of the Post Office

**SENATE BILL 2054** . . . To establish Accounting Management

**HOUSE BILL 5182** . . . To provide a United Medical and  
Public Health Administration

***The importance of these measures is self-evident. Their results can be far-reaching. Their acceptance is vital.***

# Every Citizen can help...

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**1. Actively support pending legislation.** Congress still is in the mood to act on the findings of the Hoover Report. Strong pressures have been built up opposing recommendations, particularly in relation to such matters as veterans' affairs and personnel modernization. A forthright expression of sentiment on the part of the public will undoubtedly bolster the interest and courage of Congress in this period of decision. Surely all can profit if we bear in mind the nonpartisan nature of the Hoover Commission and approach the legislative program in the same constructive spirit of interest in Government.

**2. Participate on advisory committees and commissions.** It is of great interest that the Hoover Commission frequently took occasion to propose that the President, as well as the heads of major departments and agencies, reach for the counsel and advice of qualified private citizens. There is no major agency of Government which could not profit greatly from the use of such help. Business and industrial leaders render a valuable service by giving their time when such an opportunity arises.

**3. Support the National Citizens' Committee for the Hoover Report.** Following the expiration of the Hoover

Commission's term of life, several of its principal members organized a voluntary nonprofit organization known as the Citizens' Committee for Reorganization of the Executive Branch of the Government. The organization is under the leadership of Dr. Robert L. Johnson, President of Temple University. Dr. Johnson served on the Hoover Commission personnel task force. A contribution to the support of this committee will bring any interested citizen up-to-the-minute information on the progress of the Hoover Report, and will aid this organized effort which is designed to educate the public and the Congress.

**4. Participate in your local citizens' committees.** Under the sponsorship of the National Committee, local chapters of the Citizens' Committee have been formed in every state, in a great many communities. These groups are sponsoring community meetings at which well-informed speakers appear to discuss the findings of the Hoover Reports. This represents an opportunity for citizens to participate within their own community to engender the widest possible understanding and consideration of the Hoover recommendations. It is essential that prominent men and women take the leadership in their own spheres and communities.

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