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PT. 8 THE BUDGET AND THE POLICY PROCESS

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HEARINGS
BEFORE THE
SUBCOMMITTEE ON
NATIONAL POLICY MACHINERY
OF THE
COMMITTEE ON
GOVERNMENT OPERATIONS
UNITED STATES SENATE
EIGHTY-SEVENTH CONGRESS
FIRST SESSION
JULY 24, 25, 31 AND AUGUST 1, 1961
PART VIII

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THE BUDGET AND THE POLICY PROCESS

MONDAY, JULY 24, 1961

U.S. SENATE,
SUBCOMMITTEE ON NATIONAL POLICY MACHINERY,
COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 3302, New Senate Office Building, Senator Henry M. Jackson (chairman of the subcommittee) presiding.

Present: Senators Jackson, Muskie, Mundt, and Javits.

Staff members present: J. K. Mansfield, staff director; Robert W. Tufts, chief consultant; Dorothy Fosdick and Brewster C. Denny, professional staff members, and Roderick F. Kreger, minority counsel.

Senator JACKSON. The committee will come to order.

This morning the Subcommittee on National Policy Machinery begins a series of hearings bringing to a close its nonpartisan study of how our Government can best staff and organize itself to outthink, outplan, and outperform world communism.

These windup hearings, like those the subcommittee held last year, will take a frank and searching look at the number one problem facing our country, the planning and management of national security policy.

The Berlin crisis and the rising tempo of Communist activity in Asia, Africa, and next door in Latin America, underline the problems of making policy and coordinating its execution in a world of change and danger.

Old programs must be revised; new demands for manpower and resources must be accommodated; projections of the impact of Government upon the economy must be amended.

From the outset, the subcommittee has been concerned with the question of "dollars and survival"—with the problem of the budgetary process as a prime executive instrument for the planning and management of national security policy. Does it provide the President, his chief lieutenants, and the Congress with the information needed for wise and prudent program choices?

Are the budgetary process and the national security planning and programming process properly related?

Is budgeting done on a long enough time scale to permit effective forward program planning?

Is the budgetary process an effective coordinating and performance auditing instrument for the President and his key civilian and military chiefs?

The first four sessions in this concluding series of hearings will be directed to these and related questions.

Tomorrow we will hear from Mr. Wilfred J. McNeil, who was for many years Comptroller of the Defense Department.

Next Monday, July 31, our witness will be Mr. Maurice Stans, former Director of the Bureau of the Budget, and on the following day, we will hear from Mr. David Bell, the present Director of the Bureau of the Budget.

During August we will take testimony on State-Defense problems and the National Security Council. The witnesses will include Secretary of State Dean Rusk, Secretary of Defense Robert McNamara, and others.

During these hearings, the subcommittee will adhere to the same rules it has used in the past in taking testimony concerning the National Security Council and its subordinate machinery.

This morning we are pleased to have with us Mr. Charles J. Hitch, Assistant Secretary of Defense, and Comptroller. Mr. Hitch has had a distinguished career and made an international reputation as an economist. He served for 13 years, from 1948 to 1961, as chief of the Economics Division of the Rand Corp. While serving in that post he was coauthor of an important study, "The Economics of Defense in the Nuclear Age," which was published last year.

Mr. Hitch, we are pleased to have you here this morning. You may now proceed. I believe you have a prepared statement.

STATEMENT OF HON. CHARLES J. HITCH, ASSISTANT SECRETARY OF DEFENSE

Mr. HITCH. Mr. Chairman, members of the committee, before proceeding with my statement I would like to say a few words about the attachments to this statement. These attachments are all internal memorandums of the Department of Defense. They contain no classified information. Some of them are marked "for official use only," because they were tentative at the time they were issued.

In fact, some changes have been made in the details since they were issued. We will prepare an up-to-date set of these attachments for publication with the committee proceedings, if you desire to publish them.

Senator JACKSON. Will it be all right now to make them available, Mr. Hitch, to the press?

Mr. HITCH. I have no objection if they are made available to the press.

Senator JACKSON. Fine. They will be placed on the table so that members of the press may look at the attachments during the course of the testimony today.

(The documents appear as attachments at the end of this hearing.)

Mr. HITCH. Mr. Chairman and members of the committee, I welcome the opportunity to appear before this committee to discuss the role of the budgetary process in national security policymaking and execution. The work of your committee has been of great interest to all of us concerned with the problem of national security.

Since Secretary of Defense McNamara will appear before you in August, I will leave to him the National Security Council aspects of defense planning and limit myself today to a discussion of what we are doing to improve the planning-programing-budgeting process within the Department of Defense.

But first I want to make clear that we are not starting this task from scratch. No one who has studied the budgetary process as it existed in the War and Navy Departments at the end of World War II can help but be impressed by the tremendous progress achieved since that time.

Just one example: as late as fiscal year 1948, the Navy Department had to manage its financial affairs through some 136 separate accounts, each of which had to be separately considered and appropriated for by the Congress. They ranged in size from \$50 for the payment of certain claims to \$1,294 million for pay and subsistence of naval personnel. The War Department budget was similar. Although the major appropriations paralleled the organization of the two Departments, they did not follow any functional pattern whatsoever. Furthermore, a large number of the appropriation accounts were for minor and obscure purposes which merely represented the accretions of some 150 years of history.

Since then the Defense budget structure has been greatly simplified and rationalized under five principal titles—"Military Personnel"; "Operation and Maintenance"; "Procurement"; "Research, Development, Test, and Evaluation"; and "Military Construction." The number of appropriation accounts has been greatly reduced. We are now asking for new appropriations in only 13 accounts each for the Army, Navy, and Air Force. Comptroller organizations have been established throughout the Defense Department. Basic patterns have been developed for budget program and activity accounts. Progress has been made in achieving cost-based budgets. Institutional arrangements designed to promote efficiency and economy, such as consumer funding and the use of stock and industrial funds, have been established. Financial accounting for materiel inventories is now standard in all the services and much else has been accomplished. For these notable achievements, we have to thank my distinguished predecessor, Mr. W. J. McNeil, the first Comptroller of the Department of Defense, who is scheduled to testify before this committee tomorrow. He was the principal architect of these numerous reforms.

All these reforms are useful and necessary, and we plan to retain them and improve upon them. But there is one area in which we believe we have to add significantly to what we already have.

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

Yet, it is precisely in this area that the financial management system showed its greatest weakness. It did not facilitate the relating of costs to weapon systems, tasks, and missions. Its time horizon was too limited. It did not disclose the full time-phased costs of proposed programs. And it did not provide the data needed to assess properly

the cost and effectiveness of alternative programs. As General Taylor pointed out to this committee last year:

In spite of the fact that modern war is no longer fought in terms of a separate army, navy, and air force, nonetheless we still budget vertically in these service terms. Yet, if we are called upon to fight, we will not be interested in the services as such. We will be interested rather in task forces, these combinations of army, navy and air force which are functional in nature, such as the atomic retaliatory forces, oversea deployments, continental air defense forces, limited war expeditionary forces, and the like. But the point is that we do not keep our budget in these terms. Hence it is not an exaggeration to say that we do not know what kind and how much defense we are buying with any specific budget.

This kind of budgeting makes it hard to determine what our military posture will be at any given time in the future.

Admittedly, the financial management system must serve many other purposes. Certainly it must produce a budget in a form acceptable to the Congress. It must account for funds in the same manner in which they are appropriated. It must provide to managers at all levels in the Defense Establishment the financial information they need to do their particular jobs in an efficient and economical manner. It must produce the financial information required by other agencies of the Government—the Bureau of the Budget, the Treasury, and the General Accounting Office.

But all this is not enough. The financial management system must also be made to provide the data needed by top Defense management to make the really crucial decisions, particularly on the major forces and weapon systems needed to carry out the principal missions of the Defense Establishment.

These decisions cannot be made rationally without an adequate knowledge of the available alternatives, in terms of their military worth in relation to their cost. Because of the long life cycle of major weapon systems, the cost of the systems must be projected over a period of years, ideally over their entire lifespan. Only in this way can the full cost implications, present and future, of program decisions be appreciated. And, finally, the entire system must be oriented to provide top management with essential data in terms of programs, since it is in terms of programs that major decisions have to be made.

What we visualize, under the new approach to budgeting, is a three-phase operation:

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

The first phase—the review of requirements—has been underway in the Department since March. Secretary of Defense McNamara assigned to the Joint Chiefs of Staff, the military departments, and the various elements of the Office of the Secretary of Defense, specific projects dealing with the most critical or difficult requirements problems.

One, for example, attempts to estimate how many strategic bombers and missiles we will need during the next decade to destroy priority target systems. Another examines requirements for airlift and sea-lift to meet various contingency war plans, and the most economical means of providing them. Another estimates, for various major items of ground equipment, the comparative advantages and costs of:

- (a) refurbishing existing equipment;

(b) replacing it with new equipment off the assembly lines; and

(c) expediting the development of still better equipment.

These are not requirements studies in the traditional military sense. They are military-economic studies which compare alternative ways of accomplishing national security objectives, and try to determine the one which accomplishes the most for a given cost or achieves a given objective at least cost.

Some of these requirements studies involve rather complex analyses which are being conducted by various elements of the Defense Establishment with the help of such research groups as the Weapons Systems Evaluation Group, Rand, et cetera.

The requirements studies are selective rather than comprehensive in scope. They are directed at the most important areas. In these areas, they should provide a firmer basis for the program decisions in the second phase of the operation.

The second phase—the formulation and review of programs—was started in May. Attachment A, a memorandum for the departmental Assistant Secretaries for Financial Management, provides general guidance to the military departments for the development and submission of the program data. (See pp. 1036–1039.)

No dollar ceilings were assigned to the military departments. They were instructed, instead, to use as a base force projections prepared by the Joint Staff of the Joint Chiefs of Staff, which reflect the program decisions, explicit or implied, in the fiscal year 1962 budget, as amended in March and May of this year.

They were asked to submit proposals for additional forces and new programs (projected wherever possible through 1970) which, in their judgment, are required to support our basic national security policy. The departments were particularly encouraged to submit alternative forces and programs so that the Secretary of Defense, in reaching his decisions, would have before him the principal choices available to us in achieving our national security objectives. The total costs of each proposed program must be shown for at least the next 5 years.

The time schedule for the submission of the programs is shown at the very end of attachment A (p. 1039). The first package of programs, "Central War Offensive Forces" (more familiarly known as Strategic Retaliatory Forces), was scheduled to be submitted by July 3 and that target was met.

My office, working with the Joint Staff and the military departments, developed a standardized list of program packages and program elements, as shown in attachment B. (See pp. 1039–1046.) By a "program element" we mean an integrated activity, a combination of men, equipment and installations, whose effectiveness can be related to our national security policy objectives. As examples, we have in mind such forces as B-52 wings, infantry battalions, and combatant ships, taken together with all the equipment, men, installations, supplies, and support required to make them effective military forces.

By a "program package" we mean an interrelated group of program elements that must be considered together because they support each other or are close substitutes for each other. The Central War Offensive Forces is an example of such a package. The unifying principle of each package is a common mission or set of purposes for the elements involved.

As you can see from a perusal of attachment B, we have attempted to identify each specific item or activity which would meet the definition of a program element; we have organized them into large related groups, and finally into program packages related to the major military missions.

For example, on the first page of attachment B are listed the program elements included in the Central War Offensive Forces program package. You will note that they are divided into a number of general categories: aircraft forces; land-based missile forces; sea-based missile forces; command, control, and communications systems; and headquarters and command support.

Within the aircraft forces are the B-52's (with HOUND DOG and QUAIL air-to-surface missiles listed separately), the B-58's and B-47's (including the reconnaissance version of the B-47), the tankers, and the B-70.

Within the missile forces are ATLAS, TITAN, MINUTEMAN, and POLARIS, plus the THOR and JUPITER IRBM's, and the submarine-launched REGULUS missiles. Also included in the Central War Offensive Forces package are the communications links and the command and control systems required for the effective direction of the strategic forces, together with the headquarters and command support associated with these forces.

The Central War Defensive Forces (or Continental Air Defense Forces) program package is another of the more easily definable program packages supporting a clearly identified major military mission.

The third and largest program package is that for the General Purpose Forces. These are the forces on which we rely to fight local or limited wars, or theater engagements in general war. This package is organized broadly along service lines; within services the basic, identifiable combat units form the program elements. Under the Army are almost all its regular combat units and command support elements. They range from the four basic kinds of divisions through the missile groups and commands to tank units, artillery battalions, air defense units for the Army in the field, and aviation companies.

The Navy's list is even longer, embracing all of the combatant ships and support vessels, except for the strategic-missile-firing submarines, which are in the strategic offensive package, the radar warning picket ships in the defensive package, and Military Sea Transportation Service (MSTS) ships, which are in the sealift and airlift package. All of the Fleets' various aircraft units are also included, except those assigned to the airborne early warning squadrons.

All Marine Corps units are listed under "General Purpose Forces," including the Marine Air wings.

The Air Force General Purpose Forces include principally those units assigned to the Tactical Air Command and the theaters. The tactical fighters and bombers, tactical reconnaissance aircraft, KC-50 tankers, MATADOR and MACE missiles, and the associated command and control systems and headquarters all fall under this category.

The fourth program package is that for Sealift and Airlift. The troop carrier wings of the Air Force, including theater airlift, Military Air Transport Service (MATS), and Military Sea Transportation Service (MSTS), make up the essential pieces of this grouping.

The fifth program package is composed of the Reserve and National Guard Forces. The program elements are arranged according to service and within each service according to which of the major missions they support. Actually, Reserve and National Guard program elements will be reviewed in the appropriate mission package—Central War Defensive Forces, General Purpose Forces, or Sealift and Airlift, depending on the character and function of the individual units.

Program package No. 6 includes all of the Department's Research and Development projects not associated with other program elements. Space projects are gathered in a separate group in the R. & D. program package.

The seventh program package is labeled Servicewide Support. This is the "all-other" package, containing all the activities not readily allocable to missions, forces, or weapon systems. Some of its major elements are recruit, technical, and professional training, the overhead of the supply and maintenance systems, medical support, and higher headquarters. The other packages are self-explanatory.

No doubt, as we gain experience, there will be further changes in this list. There will be a continuing task of adjusting the list to reflect changes in the forces and programs, as well as in plans, concepts, and organization. As a result of last week's Executive order we will begin to fit civil defense program elements into the Central War Defensive Forces package where they belong.

The first and second phases of the new process, i.e., the requirements and programing phases, will, after this first year, be continuous year-round efforts. Once the initial formulations of requirements and programs have been completed, reviewed, and approved by the Secretary of Defense, the continuing effort will be concentrated on program revisions to take account of changing conditions, new developments, and new requirements.

For example, we are now working into our program projections the effects of the new set of amendments to the fiscal year 1962 budget which President Kennedy will send to the Congress on Wednesday. As each year goes by we will project our requirements and programs forward another year so that at all times we will be looking at least 5 years beyond the current budget year. Thus the Department of Defense will have at all times a tentatively approved program, fully costed, and projected at least 5 years into the future, to serve as a planning guide to the entire Defense Establishment.

If the system develops according to plan, we should be able, in the fall of each year, to draw up rather quickly a detailed Defense budget by using the first year increment of the approved programs, together with other policy guidance, as the basis.

There should be no need for a hectic and hurried *program* review crammed into a few weeks in the midst of the annual *budget* review. The basic program review will have been accomplished and only a final check and some last minute adjustments should be needed as far as the programs are concerned. This should make for a much more orderly and thorough budget preparation, and provide time for a careful scrutiny of program detail, shopping lists, production schedules, lead-times, activity rates (flying hours, steaming hours), personnel grade structures, cost estimates, status of funding, and all of the myriad things involved in the preparation of a Defense budget.

To facilitate the translation of approved programs into budgets we have requested the services to submit the costs of each program element by fiscal years and in several ways:

1. By obligational authority required and expenditures expected;
2. By appropriation account and budget title, in line with the present budget structure; and
3. By three broad categories of costs—research and development, investment, and operating—covering the three principal phases in the life cycle of a weapon system.

“Research and development” costs are defined, for this purpose, as—
all costs associated with developing a new capability to the point where it is ready for introduction into operational use. Such costs include not only the equipment (prototypes, test vehicles, etc.) required in a development program, but also the related facilities, supply, and personnel costs, where applicable.

“Investment” costs are defined as—

the onetime or initial outlays required beyond the development phase to introduce a new capability into operational use (including initial training, initial stockloads of spares and supplies, the bases and installations, etc.).

The culling out of programs, obviously, should be done in the research and development stage, before heavy investments are made in committing the system to production. That is one of the reasons why we have separated the R. & D. from the investment category—so that we can plainly see the costs involved in a decision to produce and deploy a weapon system as contrasted with the cost of its development.

We also believe the operating costs should be clearly identified and estimated years in advance. All too often these costs are overlooked when decisions are made on weapon systems; and they can be substantial. For example, the cost of operating a B-52 wing for 5 years is roughly equivalent to its investment cost—about \$500 million in each case. The ratio of operating to investment costs varies widely from system to system.

Attachment C is an example of the instructions and formats used in cost estimating. These particular schedules are designed for the Navy, but they are typical of those designed for the other two Departments. Taken together, these schedules will provide the essential cost data needed for planning, programing, and budgeting within the Department of Defense, for Presidential and National Security Council consideration, and for congressional review.

We visualize the program package review within the Defense Department as a team operation involving not only the Secretary of Defense and his staff, but also the service Secretaries and Chiefs, and the Joint Chiefs of Staff. Each of the military departments and the Joint Chiefs of Staff are receiving copies of all the material submitted by the military departments. Thus there will be a complete interchange of information and Secretary McNamara will look to the service Secretaries and the Chiefs, as well as his own staff, for advice and counsel on the defense program as a whole.

The primary function of the Comptroller's office will be to assemble and organize the data submitted for the use of all participants in the review process, and to review specifically the cost estimates. The evaluation of military effectiveness will be the primary responsibility of the military departments and the Joint Chiefs of Staff. Other elements of the Office of the Secretary of Defense will review the submissions and advise the Secretary on aspects of the programs within their

areas of functional responsibility. For example, the Director of Defense Research and Engineering will review and advise on the scientific and technical aspects of all programs; the Assistant Secretary of Defense, Manpower, on the personnel aspects, etc. In this way we hope to bring to bear on the formulation of the defense program the full knowledge and skills of all the principal officials of the Department of Defense.

The first program packages have already been submitted and copies have been furnished to each of the services, the Joint Chiefs of Staff, and the various elements of the Office of the Secretary of Defense. My office has just completed and distributed a summary of the first package and an analysis of its cost implications over the years.

Over the next several weeks, in accordance with the schedule shown at the end of attachment A, the Secretary and Deputy Secretary of Defense will review the data and analyses and, with the assistance of the principal civilian and military officials of the Department, establish a tentatively approved overall defense program for the next 5 years. This phase of the review process should be completed during September.

During October and November the services will prepare, and the Office of the Secretary of Defense will review, the annual budget requests and final decisions will be made on those portions of the approved programs which are to be financed in the fiscal year 1963 budget.

As I have already indicated, we have undertaken the new planning-programing-budgeting process on what amounts to a "crash" basis, with the best information at hand. This fall we shall address ourselves to the problem of adjusting the information reporting systems to meet the full requirements of these new procedures. With the help of three contractors who have done pioneering work in relating costs to weapon systems and programs—Rand, Stanford Research Institute, and the Institute for Defense Analyses—we plan to review the existing information systems and devise and install the necessary modifications.

We do not anticipate any insurmountable difficulties in making these needed adjustments, and we estimate that they can be effected in 1 to 2 years. Our objective is to develop an integrated reporting system which will provide reliable cost and program data in terms of the program elements and packages. While we do not expect the financial accounting system to provide all the cost information directly in terms of programs, we do expect it to furnish the basis for good statistical cost estimating and for after-the-fact checking on the estimates. Financial reporting of obligations and expenditures by appropriation account will of course be continued as an essential part of the financial management system.

Further, we want the new information reporting system to give us the data needed to assess properly the progress and status of each of these program elements in relation to the approved program. This will enable us to match performance against plans, both in physical terms and in financial terms. For the first time, the Secretary of Defense will have an integrated financial management system specifically oriented to the manner in which he has to make decisions—by program in relation to military mission.

Mr. Chairman, I have outlined the improvements in the planning-programing-budgeting process of the Defense Department that we are

trying to achieve. These improvements, of themselves, will not make the hard decisions easy, nor will they make simple the complex problem of formulating national defense policy. What they will do, we hope, is facilitate the rational analysis of national security problems.

They will make us aware of the full cost implications of the choices we make. They will permit us, in shorter time and with greater accuracy, to cost out the various policy alternatives presented to the National Security Council for its consideration.

I feel very strongly that whether one is choosing among particular items of equipment or among various policy proposals, it is extremely useful to array explicitly the alternatives and their respective costs and effectiveness. The procedures we are developing will promote this way of looking at defense problems, this way of deciding how best to defend the security of the United States.

Senator JACKSON. Mr. Hitch, on behalf of the committee I want to express our appreciation for a most illuminating statement. I know it will be helpful to our overall study of the national security policy process.

As you indicated in your statement, the President will recommend tomorrow a strengthening of our defense posture. In this connection, do you think that the changes you are instituting in the budgetary process are helping the Secretary of Defense and the President to reach wiser decisions sooner?

Mr. HITCH. Mr. Chairman, I think it would be fair to say that the program packages would have been extremely helpful in this review if they had been developed in time.

However, if you will look at the schedule by which the program packages are to be submitted, you will see that the general purpose forces, which were the most directly involved in this particular review, have not yet been scheduled for submission. Therefore, they were not available and this review had to be made, as so many reviews in the past, starting more or less from scratch.

I think that in the future when we have these program packages ready and approved it will be easier to make such reviews. We can make them quicker and we can make them more meaningful.

Senator JACKSON. In the future.

Mr. HITCH. In the future.

Senator JACKSON. As I understand it, you are now on your third supplemental request, or third amendment to the Defense budget since taking over your present assignment. Is that not correct?

Mr. HITCH. That is correct. Yes, sir.

Senator JACKSON. You also have the job of trying to meet schedules for submission of the budget for next year as well as for the programs you have outlined in your statement today.

Mr. HITCH. Yes, sir; these long-range programs.

Senator JACKSON. I would say you are rather busy.

Do you expect to ask for long-range obligation authority from Congress next year in connection with the long-range budget plans that you have outlined in your statement?

Mr. HITCH. No, sir. We intend to ask only for the annual budget in the form in which we have asked in the past.

The annual budget now includes, in a number of cases, funding for programs that require several years to complete. The funding in such cases is not limited to the next fiscal year.

In summary then, we propose to ask for an annual budget organized under much the same appropriation accounts as in the past. Some of these accounts would be annual accounts, others would be "no-year" accounts.

Senator JACKSON. But would it be presented to the Congress in such a way that, where feasible, the projected requests for the years following the immediate budget request would be included?

Mr. HITCH. The budget request that we make for next year will be related to these longer term programs so that the Congress will be able to look at the implications of the budget in terms of the long-term programs that the budget will be supporting.

Senator JACKSON. Now, I want to give an illustration that comes to my mind from personal experience, and see what will happen under the proposed plan.

A few years ago I was pushing very hard for the Polaris submarine program—that is the long-range strategic striking force made possible by the development of the nuclear-powered submarine and the POLARIS missile.

The problem I ran into was that the Navy had its current requirements to meet, requirements for limited war, for its role in general war, requirements for antisubmarine warfare, and so on.

I was told it was a fine program and they would like to ask for more POLARIS submarines, but the trouble was that it would not fit in their budget ceiling.

At the time I tried to suggest that in view of the invaluable future use of the POLARIS submarine that the program probably ought to be included in a special budget that covered our strategic long-range striking forces.

Nothing came of this request.

I wonder if you could indicate how that weapon system would be handled under the program that you have outlined here today.

Mr. HITCH. Yes, sir; I think it will make a considerable difference in the way a new program of this kind will be handled. We are not assigning any overall dollar ceilings to the services.

A new program, like the POLARIS in the strategic offensive area, would be submitted by the service in the strategic offensive package. In the review it would tend to be competing directly not with other Navy programs, but with the other means of carrying out the strategic offensive mission.

It would not be compared with the antisubmarine warfare activities of the Navy; rather it would be compared with other strategic systems such as Air Force bombers and land-based missiles.

I think this will make a great deal of difference in the way in which these new programs are looked upon by the services and by the Secretary.

Senator JACKSON. What you are saying, then, is that the contribution that each weapons system could make to a military mission would be the basic consideration in this case?

Mr. HITCH. Yes, sir; it would compete in relation to the mission area for which it is primarily designed.

Senator JACKSON. As you see it now, what effect will this new program have on cutting up the defense budget pie?

Mr. HITCH. I could not predict that, sir. The decisions that the Secretary makes on the basis of all the advice he gets and all the

information he receives will be the primary determinant. I cannot see that the program package concept will in itself necessarily affect any service favorably or adversely.

Decisions will depend upon the quality of the programs that each service submits in comparison with other elements of the program package.

Senator JACKSON. You feel that, under this approach, the vital weapons systems we need are not going to get crowded out, at least, of consideration?

Mr. HITCH. That is correct. I am not saying that we will be able to do everything we want to do in the defense field. I am sure we never will. However, a program should not get crowded out simply because of competition at the service level with other elements of the service program.

Senator JACKSON. Senator Mundt?

Senator MUNDT. Thank you, Mr. Chairman. I would like to associate myself with the chairman's compliments on the very informative and comprehensive report, Mr. Hitch.

Through the years everyone has read a great many articles and speeches about the tremendous savings which might accrue to the Defense Department through some system of common procurement. I do not know how much validity there is to all these suggestions, but I presume there was some.

I wonder what progress is being made in the direction of establishing procurement and a standardization of supplies in those areas where the various services might well utilize the same kind of material.

Mr. HITCH. Sir, there has been a good deal of progress in this direction. It has been gradual progress. The Department generally has added one thing at a time, that is one category of items at a time, to those which are handled by a single manager for the Department as a whole.

There are under study various proposals for moving more rapidly and more drastically. However, as Comptroller, I am not primarily involved in these studies.

I am quite interested in them, of course, but the person who is primarily concerned is the Assistant Secretary for Installations and Logistics, Tom Morris.

I do not know what the final recommendations will be. This is a very difficult problem. It is easy to see the waste and inefficiency of the present system. For this reason I think sometimes it is too easy to jump to the conclusion that you could solve all the problems by extreme centralization of the functions. I think it is not that simple. There are also some sizable problems involved in extreme centralization of such functions.

This is probably one of the reasons that so many large industrial corporations decentralize them.

I am not really clear in my own mind whether faster, larger scale movements in this direction would pay off to the extent that some people hope. But there is certainly room for improvement.

Senator MUNDT. But there are studies being made.

Mr. HITCH. Yes, sir. Studies are underway.

Senator MUNDT. Under the direction of one of the other assistant secretaries?

Mr. HITCH. Yes, sir.

Senator MUNDT. Are those reported to you? You are sort of the keeper of the house, obviously, of everything that is going on.

Mr. HITCH. I am the financial manager; yes.

Senator MUNDT. I was wondering whether in your office you did have some coordinating recording system to indicate the progress that is being made. I don't know how astronomical these savings are going to be when you look at them in actuality, but certainly a lot of people believe we can save a lot of money that way, and any time we can save money by standardization, it should be done.

Mr. HITCH. Yes. We will, of course, keep track of how much is being spent under the new system as compared to that under the old system. However, before we make this change and have a new system in operation we are in the very treacherous area of prediction, and nobody is really good at predicting in this area.

Senator MUNDT. You mentioned that you are going to try to establish a sort of 5-year prognostication, I believe, as to cost involved in defense.

Mr. HITCH. Yes, sir.

Senator MUNDT. How good do you think that conjecture is going to be in view of a world changing so rapidly that even the annual submissions to Congress have to be supplemented two or three times. We have to have special messages from the Chief Executive, because Khrushchev changes the emphasis he puts on his push against freedom here and there. It will be very hard to make 5-year prognostications, will it not?

Mr. HITCH. I am sure they will not be fully accurate. I am sure we will not rigidly adhere to any particular 5-year program we lay out.

In fact, if we did we would be foolish because undoubtedly there will be changes in circumstances and in technology that we cannot predict.

Senator MUNDT. Not only the political changes, but it is the changes in technology. The inventive mind of man is going to come up with some new devastating weapon that will upset your budgetary plan. You have to rush up to the Appropriations Committee for new money.

Mr. HITCH. That is right.

Senator MUNDT. Another question that lies before us many times and is a constant source of discussion in our Appropriations Committee is the problem of competitive bidding. This is a competitive economy and by and large our citizens are happier if they think their money is being spent through competitive bids.

We have pressed that point in appropriations and you fellows on your side of the table representing defense are very liberal in requesting bids on a truck and automobile.

That does not work so well if you are buying a JUPITER or POLARIS weapon, or something.

Can you indicate any encouragement as to what progress we might make in the area of competitive bidding and in the absence of that, can you give some assurance that taxpayers' money can be guarded equally well through other accounting systems, such as renegotiations, recapture contracts and so forth?

Mr. HITCH. I cannot give the last assurance, sir, because I do not think there is any substitute for competition. I think the best solution is to get competition into this procedure in one way or another. I don't think you can provide an equal degree of economy by any other method.

Senator MUNDT. I share that feeling, but I also share the feeling of the people testifying at the other end of the table and representing the Defense Department point of view. How do you get competition when you are building a guided missile base, or when you are getting ready to shoot a man into space?

You do not have many competitive firms in that business, do you?

Mr. HITCH. As far as actual construction of the bases are concerned, there are a lot of firms competing. In general the construction contractors have been selected on a competitive bid basis. It still is not entirely satisfactory because once the contract is let you get locked into your contractor and then you have lots of changes and these have to be negotiated.

In general, however, the base construction has been done on a competitive bid basis.

Senator MUNDT. The base construction, but not the construction of the thing that is shot up in the air.

Mr. HITCH. Nobody has ever learned how to get competition into procurement of the missiles themselves.

Senator MUNDT. That is the big expense.

Mr. HITCH. How you can bring about real competition for these very new weapon systems, which you simply cannot describe in advance in the kind of detail necessary to get competitive bid submissions—even if there were several people who could make them—is a problem which has defeated everybody who has looked at it so far.

Senator MUNDT. The failure to do so, maybe the impossibility of doing so, I think you will agree, has added to our defense cost.

Mr. HITCH. Yes, sir; I would. I think some progress is being made. Not in these extreme cases, but in some other cases, we are attempting to get the drawings earlier so that only the first production run is made by the person who has the development contract. We do get competitive bids on subsequent production runs of a good many items. Even so I do not believe that would solve our problem in relation to a weapon system such as the TITAN missile, for example.

Senator MUNDT. I think the importance of this was dramatized last week when a subcommittee of the Appropriations Committee of which I am a member, dealing with different types of Government activities, actually some reclamations projects, some of which are in the chairman's area, found in project after project we had been able to cut back \$8 million, \$5 million, \$10 million, and in one case \$23 million, from the anticipated cost.

The contractors in the area were hungry and were bidding competitively whereas the costs of defense have constantly gone up.

So as we can inject more competitive bidding into this weapon system certainly we are going to move in the direction of buying more defense for the taxpayers' dollar.

Mr. HITCH. Sir, I entirely agree. I think we must keep trying to get competition in wherever we can. The Secretary of Defense, Mr. McNamara, believes strongly in competition; so do I. But it is very difficult in some of these cases.

Senator MUNDT. I know that, but I am encouraged to know you are continuing to try because we will become standardized, I am sure, in some of these areas after a little more experience and experimentation.

Now, there is another area where it seems to me, and it has seemed to me for a long time, that we could economize. You mentioned three categories, I believe, in your opening statement, the categories including the life cycle of the weapon system, research and development, investment and operation. I was hoping that you would have a fourth category.

Senator Young, of North Dakota, and I, sitting on the Defense Appropriations Subcommittee, have suggested this at one time or another. We have been hopeful that a new look from a man who has had great experience in this field might bring in a fourth category. For want of a better name, never having had the advantage of knowing all the technical terms they use down at Rand, I would simply say a recapture category.

Our experience indicates, and our study of this over a great many years, indicates that one great place where the taxpayer just does not get value received is when you finish using the jeep or a truck or an airplane. You just wash the thing out of your hair—I am talking now about the Defense Department—wash it out of your hair, get it out of sight, sink it in the ocean, bury it in the ground, without any thought that this is a piece of merchandise with value. You do not have to give it away. You do not have to make it a free donation to some community which would be immeasurably better off to pay for it than the poor old Federal Government.

Why do we not do something in the direction of trying to recapture value from some material which is excess or surplus?

It is a shocking experience to walk down the wrong side of the street, in the wrong part of town, in any of our metropolitan areas and find brand new military merchandise for sale, a nickel's worth on the dollar.

Somebody has gotten that from the Government almost for nothing and is peddling it around in Army and Navy stores. Some big machinery we urge people to come and get, almost for free.

I was hopeful that as you realized this from your broad base of experience you would say, "Look, out of these \$50 billion that we spend every year and the thing becomes obsolete and surplus maybe we can pull back and save and recapture \$4 or \$5 or \$8 or \$10 billion and put it back into the Defense of the future."

Mr. HITCH. Well, sir, it is perfectly apparent that there is room for improvement in what the Defense Department has done in this area in the past. I am afraid it is one of the areas into which I have not yet found time to delve.

Senator MUNDT. This would come under your general purpose?

Mr. HITCH. No, sir; I don't like to run away from problems, but this is considered a logistics problem and as such falls under the purview of Assistant Secretary Morris.

I am keenly interested in it, however, and I might say I have been concentrating my effort on the problem of how we keep from making mistakes in ordering these things in the first place, rather than on the problem of a better method to dispose of them after we have made the mistake.

Senator MUNDT. I am not critical of the fact because anybody is going to do that, your successors are going to do it.

What is the use of keeping a lot of things that are obsolete. But things that are obsolete in defense are not necessarily worthless to the community.

Mr. HITCH. No, sir.

Senator MUNDT. We have tried hard, and I hope you will carry this back to your associates who worked on the team, Senator Young and I have tried hard to get so simple an improvement as to send up to the 537 offices of the Hill an inventory of the band instruments that you no longer need, of the fire engines you no longer need. All of us have in our respective communities people who would like to buy these things.

Instead of that, we hire a retinue of people to try to give them away, or to bury them in the ground.

This is a tremendously important thing. This is not a 5- and 10-cent store decision. This is really important.

It seems to me that it comes in the category of the things that you have discussed with us. I do hope you will take a new look. It is a tough problem.

Now, on this business of inventory. We sometimes read the startling headlines about some department of the Government that has bought 1 million padlocks and has only 500,000 doors and things of that kind. That would be in your department, and I hope you will make progress in that direction.

So when those mistakes are made—and some of those I suppose are inevitable—we do not like to see the padlocks turned back for 5 cents on the dollar.

And the same wise procedures that you have been discussing in terms of procurement should also be employed from the standpoint of getting rid of the material we no longer need.

Mr. HITCH. Yes, sir. I agree.

Senator MUNDT. Thank you.

Senator JACKSON. Senator Javits, would you rather defer until later?

Senator JAVITS. I will defer for the moment, Mr. Chairman.

Senator JACKSON. Mr. Hitch, in order to clarify the procedure in your new program package system, let us consider POLARIS as an illustration. Who would be charged with the responsibility of making the POLARIS presentation, for instance, for the central offensive force package?

Mr. HITCH. The Navy Department.

Senator JACKSON. Then from there would it be handled by the Joint Chiefs, or by the Secretary of Defense? What would be the procedure?

Mr. HITCH. The decision about the program would be made by the Secretary of Defense. He would, of course, get military advice from the Joint Chiefs. He would undoubtedly in a case like this also want the advice of the Director of Defense Research and Engineering on the technical aspects of the problem and the advice of the Assistant Secretary of Defense, Installations and Logistics, on the production problems and production schedules. As Comptroller, I would provide the cost analysis, and under our new procedure, the Programing Office would assemble and present all of the data.

The decision would have to be Secretary McNamara's. There is no one else who can make these decisions that influence so profoundly the allocation of resources among the Services.

Senator JACKSON. What troubles me is that if, on this first go-round, under the program package approach, the service finds that with the big increase occurring—in this case in the strategic striking force—other items are cut back, maybe they would be reluctant to push the newer and more costly programs that would tend to offset the so-called balance of forces within their own department.

Mr. HITCH. All I can say is that it seems to me that under the program package procedures there is less chance of those cutbacks affecting programs in the same service, so that the tendency to hold back for this reason should be considerably less.

Senator JACKSON. Now, you will come to Congress, as you said you would, with the conventional budget, but would you also come with the program packages?

Mr. HITCH. Yes, sir. Our present plan is to present the budget in both ways. The Secretary wants to present it and justify it by programs.

We also, of course, have to present it by appropriation title. That is the manner in which we expect the Congress to appropriate the funds.

Senator JACKSON. Now, who will defend the package, or packages?

Mr. HITCH. This will be the primary responsibility of the Secretary. He will have the help of all of us, including, we hope, some of the people in the services.

Senator JACKSON. That is what I am leading into, the question of the role of the commanders of the unified and specified commands in presenting the packages.

Now, if for example, you are dealing with the strategic striking forces, the organization is divided at the present time.

My questions, I want to assure you, are merely questions; they are not judgments on my part. I am just trying to bring out the full implications of your plan.

If the organization of the program packages along these lines makes sense for reasons of budget and decision-making, is it not possible that they make sense for the actual organization of the forces?

Or perhaps this does not necessarily follow. In other words, you may do it for purposes of budgeting, you may not do it for purposes of organization.

It would still seem to me that a single program package—in this case, the offensive striking forces—would be best advocated and defended by one overall commander.

I presume at the outset you are going to have this package defended by the people who are responsible for the separate elements.

Mr. HITCH. Yes, sir; each element of a program package will be defended in detail by the people who are responsible for that element.

Senator JACKSON. So there would be no change organizationally?

Mr. HITCH. There will be no change. I am not saying there will be no organizational changes in the future, but we don't at present envision any change in this respect.

Certainly, ideally, the way you program and budget should parallel the way you are organized; they are interrelated. But the two do not have to mesh perfectly.

You can program and prepare your budget in one way while you are organized in a somewhat different way.

Senator JACKSON. Then, I assume, in the case of our strategic offensive forces, you would have the commander of SAC defend most of the budget and the Chief of Naval Operations would handle it from the standpoint of the submarine-launched missiles.

Mr. HITCH. At present the commanders of the unified and specified commands do have an input to this programing. They make their submissions through the Joint Chiefs organization. They submit their requirements as they see them to the Joint Chiefs and it is the Joint Chiefs who directly advise the Secretary.

Senator JACKSON. I want to turn again to the question of the program packages themselves. This, in general, is what General Taylor was advocating in connection with his functional budget approach, was it not?

Mr. HITCH. Yes; as I understand what General Taylor said, we are talking about the same things.

Senator JACKSON. You have made certain refinements, but the approach is essentially the same.

Mr. HITCH. Yes.

Senator JACKSON. You generally agree with his approach to this problem?

Mr. HITCH. To this problem; yes, sir.

Senator JACKSON. In what way will the preparation of a budget estimate for a program package differ from previous practice so far as the roles of the services, the individual military departments, and the Joint Chiefs of Staff are concerned?

In other words, is the central war offensive package merely a compilation of figures which have been prepared by the individual services, or is it a package in the sense that the balance between its various elements has been debated and agreed by the Joint Chiefs or some other appropriate joint body?

Mr. HITCH. The elements proposed for inclusion in a program package will each be prepared by some service. Each of the elements is a service element and the responsible service will prepare the cost estimates associated with that particular element.

The decisions about the balance of the package as a whole, that is, which elements you will approve, and how large each of these elements should be, will be made by the Secretary on the basis of advice that he gets from, among others, the Joint Chiefs.

Senator JACKSON. In other words, the services provide the elements. Those elements are known.

Mr. HITCH. Those are known to everyone. Yes, sir.

Senator JACKSON. The Secretary of Defense will have the ultimate responsibility.

Mr. HITCH. I am sure that the sum total of the costs of all the elements proposed by the services will add up to considerably more than the Secretary of Defense or the President or the Congress will approve.

So there will be, as usual, the necessity of review and of reduction in the proposals.

Senator JACKSON. I mentioned earlier the question of long-range authority. We do have that provision for certain cases involving contracts in previous appropriation bills which have been passed.

Is this not helpful, especially in research and development projects, so that you could have some assurance that the projects could be seen through to completion?

Mr. HITCH. Yes, sir; I think it is desirable. In a good many research and development projects we now have what is called longevity funding. While there is a considerable amount of this now, it still is a very small proportion of the total research and development program.

In addition to longevity funding for some research and development programs there is what is called full funding for a number of procurement programs, particularly naval vessels. Naval vessels are now fully funded at the time Congress first approves going ahead with a particular naval shipbuilding program.

Senator MUNDT. Does the record which you have studied very fastidiously, I know, in preparing these new identification areas, indicate where any research project or naval vessel has been suspended in midair and stopped because of the failure of the Appropriations Committees of the Congress to go through with a project which has been initiated?

Mr. HITCH. I do not recall any case in which a naval vessel has been suspended in midair.

Senator MUNDT. I cannot think of any. It seems to me whether you talk of contractual authority, obligational, or full funding, or no-year spending, I do not believe that any valid criticism can be launched against the Appropriations Committees of the Congress for failure to go through with whatever the Defense Establishment has initiated.

Mr. HITCH. I agree.

Senator MUNDT. It is no problem in anything but semantics.

Mr. HITCH. In the case of research and development, I think there are cases where it would be desirable to give assurance of a longer range research program. This has been done recently, for example, in the area of materials research. In this case it was apparent there was not enough research on metals and other materials useful in aircraft and missiles going on in the United States. The Department was anxious to get some materials research going on a substantial scale at a number of universities.

In this case I think it was extremely helpful that the Department was able to assure funding for 5 years so that research organizations could embark on a program to provide the installations and hire the people, which they wouldn't have been able to do on a 1-year basis.

Senator MUNDT. These accommodations have been worked out time and again down through the past with the Appropriations Committees of the Congress.

Mr. HITCH. Yes, sir.

Senator MUNDT. I think there is some misunderstanding on the part of some that because Congress meets every year it has an appropriation bill every year, that every once in a while it goes along chopping off the heads of projects.

If there is such evidence this is the place to get it on the record. If there is not such evidence then it is a pretty good place to give some solace to the general public and let them know that decapitory practice is not engaged in by the Appropriations Committees of the Congress.

Mr. HITCH. Certainly some of the apprehension around the country is unjustified.

Senator JAVITS. I notice in your statement you say:

Establish tentatively approved overall defense program for the next 5 years.

Just as you disclose your program packages to the Appropriations Committee authority, do you also disclose the tentative approved overall defense program for the next 5 years?

Mr. HITCH. Well, sir, exactly how we will handle this has not been decided. We will have to discuss it with the President and with the Appropriations Committees.

Senator JAVITS. For myself I say that I would hope that the long-range implications of defense, as indicated in the budget, and the tentative decision you have taken to incorporate it in a 5-year plan, would be disclosed to the congressional committees.

For myself, I would say we suffer from a very serious shortage of dependable defense information.

I knew a lot more about what you were doing when I was a lieutenant colonel in the Chemical Corps than I do now as Senator. I think I am at least as good a security risk.

I would like to ask one other question if I may while we are pursuing this.

That is: How is the contribution—which may also be increased or changed—by our allies evaluated in terms of the American defense budget, let us say over a 5-year period? Where do you get that estimate as to what Germany can do, what France, Britain, and other powers can do on perhaps an ascending scale?

Mr. HITCH. Well, sir, the only place that this information is fully evaluated in relation to U.S. defense programs is the National Security Council in which the Department of State participates. What our allies can do, we get through the machinery of such organizations as NATO, SEATO, et cetera, and through our military assistance advisory groups.

Senator JAVITS. Does it get them, and is it a part of the 5-year swing?

Mr. HITCH. We hope to make this an integral part of the 5-year planning-programming procedure. It is going to be a hard one to do, as you have implied, but some progress has already been made.

I do not believe we will make a great deal of progress with it in connection with this first review, but it is certainly in our mind to include it eventually as an integral part of the system.

Senator JAVITS. Do you know whether our Government tries to get any correlative commitments from our allies which will enable us to plan dependably over that kind of 5-year period?

Mr. HITCH. Well, sir, I think this question is one I might better leave to the Secretary who will appear before you next month.

Senator JAVITS. Is 5 years the optimum forecast period for defense?

Mr. HITCH. I am not sure that it is, sir. It was a number plucked from the air. I think it is clear that in general, 10 years is too long. There are just too many programs that you can't extend that far. Everything becomes too hazy.

I think it is very clear that 2 years is too short. Five years is somewhere in between, but I am not sure that it is exactly right. We are going to have to experiment.

Senator JAVITS. But this is the figure you are using?

Mr. HITCH. Five years is the figure we are using now; yes, sir.

Senator JAVITS. Thank you very much.

Senator JACKSON. Senator Javits, with respect to our NATO allies, I wanted to point out that we have been trying to get longer term commitments, as you know and I know, from our work with the NATO Parliamentarians Conference. This has not been easy.

Mr. Hitch, I assume your boss, Secretary McNamara, is trying to get some commitments right now while he is in Europe.

Mr. HITCH. I would not be surprised.

Senator JAVITS. I think that the budgetary process can help us to get them. That was the point of my question.

If we are now embarking on this kind of approach and we will endeavor to include the Congress in that operation, I think that we may find that we may get further because we are adopting a budgetary approach in which we need certainty and we have legitimate reason to ask for it.

Senator JACKSON. I agree with you. I think this will be helpful in putting our friends on the spot to do something comparable so that we can make our plans and meet our commitments.

Senator MUSKIE, we are sorry you were detained.

Senator MUSKIE. I am sorry, too, Mr. Chairman. I hesitate to ask any questions lest I duplicate some that have already been asked or cover ground which has already been covered.

If I do that, I hope that Mr. Hitch will so inform me so that we will not waste any time.

I have had the opportunity of reading your statement this morning, Mr. Hitch, and it seems to me that what you are advocating here is a functional budget very similar to that advocated by General Taylor before the committee last year. Is that not so?

Mr. HITCH. Yes, sir; that is true with respect to the programing aspects.

Senator MUSKIE. Do you think this kind of approach would be more effective if the budget estimates were prepared by and defended by the chiefs of functional commands?

Mr. HITCH. Well, sir, this is a matter that we have already referred to a little in our discussions. The operating commands do have an input. The operating commands do prepare a statement of their requirements over a number of years and they present these requirements to the Joint Chiefs who in turn advise the Secretary.

We could have the Chiefs of the operating commands participate very directly in the programing and budgeting procedures, but that has not been done in the past and is not currently proposed.

Senator MUSKIE. Their participation, then, is at the very beginning or near the beginning of the budget process.

Mr. HITCH. Yes, in the planning phase.

Senator MUSKIE. They do not retain responsibility for their proposals as they move along in the budgetary process?

Mr. HITCH. They retain a great interest in what happens to them.

Senator MUSKIE. Simply as bystanders, not as participants?

Mr. HITCH. Yes, essentially as bystanders, although I am sure if anyone of the unified or designated commanders felt very strongly about some decision, he would make this known.

Senator MUSKIE. Would another description of this approach be the mission approach?

Mr. HITCH. Yes, sir; it is a mission approach.

Senator MUSKIE. This almost argues that there is organizational validity to this budget approach. It seems to me this almost argues for the reorganization of the military forces along the same line so that you will have a consistent approach operationally as well as budget-wise.

Mr. HITCH. Well, sir, perhaps; I am not sure. There is a relation between the way you are organized and the way you prepare your programs and budgets, but as I have indicated before, they do not have to be perfectly parallel. You can be organized in one way and you can prepare your programs and budgets in a somewhat different way. I see no reason why we can't retain our present organization and do our programing and budgeting in the way I outlined this morning. However, it may add something to the argument for changing the organization in the direction of greater responsibility for specified and unified commands.

Senator MUSKIE. Now, the recommendations of the functional chiefs would be modified presumably, drastically modified in some cases, as the budget process moves on?

Mr. HITCH. Undoubtedly.

Senator MUSKIE. Would these changes be subjected to review or to evaluation by the chiefs of the functional commands along the budget process?

Mr. HITCH. They would certainly be informed and would have an opportunity to make their views known, yes, sir.

Senator MUSKIE. The ultimate decision would be made by others than the chiefs of the functional commands?

Mr. HITCH. The ultimate decision has to be made by the Secretary of Defense, by the President, and by the Congress.

The requests that come in from the Services and from the functional commands always have, and I expect always will, add up to very substantially more than the Secretary, the President, and the Congress are willing to give in total. They are prepared on essentially a unilateral basis and must be brought into balance from a Defense-wide point of view.

Therefore, the ultimate responsibility has to lie somewhere else.

Senator MUSKIE. Is it realistic to hope or to expect that this approach, if it is a wise one, and it makes a great deal of sense, that this approach will retain its integrity and the true maximum effectiveness with the present structure of the Department of Defense and the three Services?

Mr. HITCH. Well, sir, I hope we can be assured of integrity. We are doing a good many things to insure, for example, the integrity of the cost estimates.

There are problems with our present form of organization, but I am sure there would be problems with any form of organization.

The Department of Defense is a tremendous business. It is so large that it has to be decentralized in some way in order to manage it properly. The present way of decentralizing or organizing it may not be ideal, but it is not absolutely clear to me as yet that there is some other way that would be significantly better.

I am not an expert on organization. I am not really prepared today to address myself to the overall problems of the organization of the Department of Defense. I expect that whatever we are able to do here will be some distance from the ideal.

Senator MUSKIE. What concerns me here is that a budget proposal is developed on a mission basis, initially by the chiefs of the functional commands, and the purpose or concept behind it is that the country shall have at its immediate beck and call, if the budget process results in the proper military posture, a wide variety of military tools needed to meet the wide variety of challenges that confront us.

If this concept originates at the functional command level, who is there above them who will keep it constantly in mind and insure that this is the thing that finally emerges from the whole process?

Mr. HITCH. I think the major answer, sir, is the Joint Chiefs of Staff to whom the functional commands report and to whom they are operationally responsible.

Senator MUSKIE. And you have no fears in that respect?

Mr. HITCH. There are problems. There always will be.

Senator MUSKIE. You do not think the effectiveness of the missions is likely to be distorted depending on the ability that either of the three services have in advocating their own function in the mission.

Mr. HITCH. Well, sir, there is a Chairman of the Joint Chiefs and there are the Joint Chiefs who, as a corporate body, are involved in these procedures. Many of these decisions involve development and procurement that cuts across the responsibilities of two or more of the functional commanders.

This is not something that is built up exclusively from the requirements of the functional commanders. There are a lot of inputs that do not come from them at all. In fact, in general, the functional commanders do not have a capability to cost out the total requirements that they say they have for several years in advance. The capability for doing this costing exists in the services, within their headquarters and logistics commands.

Senator MUSKIE. The arguing will be done higher than the functional command chief. I am wondering this: How is the debate over military issues going to differ under this system than under the old system? Is the Chief of Naval Operations going to take a different stand now as he argues for the part that the Navy will play in a given program package than he did when he was simply arguing for the Navy?

Mr. HITCH. I think that one of the differences that we did discuss earlier is that when the Navy has a new program, for example, in the strategic offensive area, this program will be competing in the review process with other programs in the strategic area which all will be looked at together in the review process. It will not be competing with other parts of the Navy program in other packages. In the past it has so competed in the mind of the Chief of Naval Operations.

I think this will make a rather fundamental difference in the way in which programs are reviewed and in the attitude of the service chiefs toward new programs.

Senator MUSKIE. Forgetting now about what impact tradition and custom and the old ways of doing things have upon our method of organizing our efforts for the future, as a practical matter could you

not devise this kind of budget or implement this kind of budget approach much more effectively if you abolished the distinction among the services?

I am just asking this as a devil's advocate in order to pinpoint what is troubling me on your approach.

Mr. HITCH. The existence of the services, as I say, raises problems, but I expect any other form of organization would also have its problems.

Senator MUSKIE. Perhaps fewer.

Mr. HITCH. I cannot compare something with an alternative that hasn't been clearly defined.

Senator MUSKIE. I am not sure if we adopted that philosophy we would ever make any progress to more efficient organization.

Mr. HITCH. I am not suggesting that. I am just not prepared to address myself this morning to the larger question of the reorganization of the Defense Department.

I think it can be regarded as a somewhat separate but related problem. We can do the programing job within the present organization.

Senator JACKSON. I think earlier Mr. Hitch made a point in response to questions I asked, Senator Muskie, that the approach that is being made here will undoubtedly have some organizational implications.

I take it that that question is for the Secretary of Defense to decide.

Mr. HITCH. Yes, sir.

Senator JACKSON. I think he concedes there may be some organizational implications involved in connection with this approach in formulating the budget.

Is that correct?

Mr. HITCH. Yes, sir; that is correct. In general, the Secretary said, when he took the job, that he wanted to wait at least a year before he made up his mind about the organizational problems of the Department. I don't want to anticipate him.

Senator JACKSON. As a matter of fact, in connection with unified commands, virtually all of our combatant forces are now organized into unified or specified commands. Is that not correct?

Mr. HITCH. Yes, sir; that is right.

Senator JACKSON. This has been developing gradually within the powers that the Congress has given to the Secretary of Defense.

As I understand it, in the case of the unified commands, the commander has command over elements of all the services in almost every instance.

Senator MUSKIE. That is reassuring that there will be no organizational problems in this implementation of this budget approach.

Senator JACKSON. I think there will be some interesting organizational problems.

Mr. HITCH. I simply said that I thought we could do it without organizational change.

Senator MUSKIE. I have one or two other questions.

Does this new approach have any bearing upon the Budget Bureau's relationship to the defense budget and to its responsibilities to the President?

Mr. HITCH. I think it will help the Bureau of the Budget. We have kept them fully informed as we have developed these program

package procedures. We have discussed all aspects of the matter with them in detail. I think it will help the Bureau of the Budget because they also are very interested in what is likely to be asked for next year and the year after.

In the past, they have had to make projections pretty much on their own, so I think it will be very useful to them.

Senator MUSKIE. In other words, the Bureau of the Budget itself will be committed to long periods?

Mr. HITCH. The Bureau of the Budget is very much interested in developing something similar to our long-range program projections for the Government as a whole, but it would not be committed to a budget for more than 1 year.

Senator MUSKIE. When we get this long-range planning for military and foreign aid, it seems to me we can look forward to the day when Congress will convene only every 5 years.

Senator JACKSON. We will still be engaged in a thing called review.

Mr. HITCH. Defense intends to continue to ask for annual budgets.

Senator MUSKIE. Thank you, Mr. Chairman.

Senator JACKSON. At this time I would like to turn to Mr. Robert Tufts, chief consultant of the committee, to ask some questions.

Mr. TUFTS. Mr. Hitch, I would like to return to the question of the budgetary guidelines.

I take it that you have removed them from the process this year because you have found in the past imposition of budgetary ceilings or guidelines have in some way adversely affected defense planning.

Will you comment on that?

Mr. HITCH. No, sir; I think this is a substitute for the dollar ceilings that were imposed in the past. We are substituting longer range program decisions for the dollar ceilings.

In the past there have not been these longer range program decisions to serve as a guide. In their absence it is hard to see how limits could be established except as total dollar ceilings for the services, since we are organized by service.

I am not criticizing anyone for having imposed them in the past, but I think we have a better substitute here.

Senator JAVITS. Do you not think it is going to be necessary to do something about the congressional authority here? If you are going to bring programs to the Appropriations Committee rather than to the Armed Services Committees of the House and Senate, do you not think that we are going to have to do something about our congressional review of your programs in a committee sense in order to keep abreast of a very much more profound concept than has heretofore been the province of the Appropriations Committee.

Will we not find that some joint committees of Defense will be represented in a number of our committees because you are going to be crossing very sharply many committee lines.

I can conceive of where you would be involving committees of which I am a member which have nothing to do with the appropriations process.

Mr. HITCH. More so than in the past?

Senator JAVITS. Yes, because you are coming now with a concept, not with essentially money in appropriation form of organization.

You are coming now with the basic program concept. When Congress approves your budget it approves the concept.

Mr. HITCH. This will be a problem mainly for the Congress. Of course, we will be submitting our programs to the Armed Services Committees as well. We have to obtain from the Armed Services Committees authorization for appropriations for procurement of missiles, aircraft, and naval vessels, and for military construction that are required by the programs. This means that we will have to justify those things in terms of the total programs.

Senator JACKSON. Senator Javits, if I could interrupt right there, I think the question you have raised is a very important one. When you put the entire program of national security together as it must be sooner or later, in a package which will go beyond the Department of Defense and get into the other Departments—that is, if we are dealing in terms of long-range requirements, then it seems to me there may develop the need on the Hill for, shall we say, a committee on national security requirements.

Now, I would like to say that in connection with what Mr. Hitch is doing, within the Department of Defense there will be no problem in the Armed Services Committee because we deal with all three services.

With the establishment of the Department of Defense, the old separate committees, of course, were abolished: The military affairs and naval affairs were made into the one committee.

There is no problem here. There will be a problem, I think, in the House Appropriations Committee where they divide their subcommittees up, I believe, and deal with Army, Navy, and Air Force separately.

Mr. HITCH. No, sir; now there is a Defense Subcommittee which deals with all of them.

Senator JACKSON. They are sitting as one panel?

Mr. HITCH. Yes, sir. There is no problem.

Senator JAVITS. What I had in mind, Mr. Chairman, is that if we are going to be saying something about this matter, as well as raising the problems which are inherent in this new approach of the Department, we should also revise the organizational structure of the Congress to deal with them.

Senator JACKSON. I agree with you completely. When the administration presents the kind of package up here that will not fit our committee system, then I think we will move in response. It usually is initiated from the Executive side, or at least, it has been in the past, and we will be forced to do something about our committee structure.

Mr. Tufts?

Mr. TUFTS. Mr. Hitch, I have read your testimony and listened to it this morning. It strikes me that a great many features of this process closely resemble past practices. The services will prepare the individual budgets for the individual program elements more or less as in the past.

I do see a new thing in the removal of the budget ceiling or guideline in the earliest part of the process, but I wonder if I could ask a very simple, probably a very difficult question:

How do you basically view the changes that you are making in the defense budget? Are they primarily extensions of, or refinements of, past practices, or is it really something quite different? If it is quite different, could you indicate what you think this difference really is?

Mr. HITCH. There are two essential differences it seems to me. One

is that the costs are assembled by programs instead of only by activities and organizational units in appropriation accounts. This has never been done systematically in the past.

The other is that the costs are assembled by programs 5 or 6 years in advance instead of only 1 year in advance.

These, I would say, are the two fundamental differences. There are some other differences, too. For example, the review of these programs will be by mission packages rather than by services.

I think this last is a fairly fundamental change, but the two most important are that we are assembling our costs by programs, and that we are doing it over a 5-year period.

Mr. TUFTS. Are you saying in effect then that the Defense budget in the past has not really told us what we are getting for our money in terms of strategic deterrence and continental defense and so on?

Mr. HITCH. No, sir; you could not break it down in that way with any degree of accuracy.

Mr. TUFTS. You could not?

Mr. HITCH. You could not.

Mr. TUFTS. In that case, if that is really so, I am genuinely puzzled about it. We have had some pretty able Secretaries of Defense in the past and how did they make their decisions? Did they simply not have this kind of information?

Mr. HITCH. One never has as good information or as complete information as one wants in making decisions.

I think in some cases the answer is "Yes," they just did not have the information they ought to have had, in the form in which they really needed it.

Another part of the answer is that whenever a major decision was pending there would be an ad hoc effort to pull together the information on a relevant basis for that particular decision.

In my opinion, this is not a very satisfactory way of doing it. It is always difficult to pull this information together at the last moment when your information system is not designed to give that kind of information. Further, it is very difficult to make the information that you get from one service comparable with the information that you get from another service. And, there is no cumulative learning process if you are continuously doing these things on an ad hoc basis for particular decisions.

What we are attempting to do with the program package approach is to provide this information systematically and comprehensively. In the past it has been provided, from time to time, on the basis of special requirements.

Mr. TUFTS. A student of the Presidency once remarked that the real question about a budgetary process is whether a great debate takes place over the really significant issues.

It seems to me, as I have listened to you this morning, that the participants in the debate, at any rate, will be much the same people who have participated in the past.

I am a little puzzled, then, as to why you think the outcome of the debate will be different if the same parties are involved, with the same service loyalties and so on.

Why should the results be much different? I do understand the information part: They will have better information.

Mr. HITCH. First, they will have better information, and second, the discussions and decisions will be focused on military missions. The decisions that have to be made on the program elements associated with each of these missions will be laid out in relation to each other.

Senator MUSKIE. May I interrupt at that point?

Senator JACKSON. Senator Muskie.

Senator MUSKIE. Are you saying that our experience previously has been that there has been no focusing of attention on missions as defense budgets have been prepared?

Mr. HITCH. No, sir; I am not saying that. I am saying that a great many individual but very important program or weapon system decisions have been made in the past during the period of budgetary review, and that budgetary review has not been focused on missions.

Certainly many of the specific problems associated with a mission have been looked at in the past and decisions have been made on a mission basis in the past.

But many of the decisions, as a practical matter, many of the program decisions affecting missions, have been made during this annual hectic budgetary review. That review has not been mission focused.

Senator MUSKIE. But at some point in the budget process before, at least a beginning was made at focusing our whole defense effort on the mission concept?

Mr. HITCH. The budget is arranged by "Military personnel," "Operation and maintenance," "Procurement," "Research and development," and so on.

Senator MUSKIE. There might be a question as to whether or not the missions are the proper ones, the ones that are necessary in order to develop an effective military posture, but it seems inconceivable to me that the full defense budget is not geared to the mission concept. And if it were, then I am puzzled as to where the difference is.

Now, is it a matter of procedure? Is it a matter of the organization of the budget process?

There will be no organizational change you have made clear.

Mr. HITCH. That is correct, we do not anticipate organizational changes at this time. As for the budget process, in the past, it simply was not focused on the mission concept. It was not organized in that way.

Senator MUSKIE. What was the focus—the requirements of the individual services without relationship to each other?

Mr. HITCH. It was focused on the requirements of the individual services by appropriation title and these titles were things like "Military personnel," "Operation and maintenance," "Research and development," "Procurement," and "Military construction." These were the ways in which the budget was organized, and presented, and defended.

You could, by making a special study, pull out approximately the cost implications of some mission or task. But this has not been done systematically and the budget and other information systems were just not geared to provide the information in that form.

Senator MUSKIE. I can understand the difficulty of pulling out the mission concept from the old appropriation method, but it seemed to me inevitable that at least the information went into the budget on the basis of some mission concept.

It might be difficult to see it once you had put it in there because of the complexity and outmoded budget forms you were dealing with, but it seems to me the material must have been fed into the mission complex.

Would you say that is not so?

Mr. HITCH. I would say you have to define very carefully what you meant before I could answer that question, yes, or no.

It certainly is true that the proposals from the services for procurement of a certain type of equipment were made with the accomplishment of some military mission in mind.

Senator MUSKIE. I am talking about mission in the same sense you are in your statement.

Mr. HITCH. But all of the procurement proposals tied to that mission were not pulled out separately so that they could be looked at as a whole. Further, they were not pulled out and shown in their relation to the construction proposals, to the military personnel proposals, and to the operations and maintenance proposals that were all related to the same mission.

Senator MUSKIE. In your plan you still have an Army budget presented, a Navy budget, and an Air Force budget.

Am I wrong there?

Mr. HITCH. We are going to present the budget in a number of ways. We are going to present it by the present appropriation categories, by the old budget titles, each of which is limited to a specific service. In addition, we will also present it by program package.

Senator MUSKIE. Cutting across the service lines?

Mr. HITCH. Cutting across the service lines, but by program and mission.

Senator JACKSON. This is sort of by way of introduction to this approach, is it not?

Mr. HITCH. Yes, it is.

Senator JACKSON. Maybe later you will make a move forward to cut down some of the service identifications in some of the areas.

Mr. HITCH. That is possible. I might say that in presenting the first set of President Kennedy's amendments, and indeed, the second set of President Kennedy's amendments, to the fiscal year 1962 budget, we attempted to present the budget in both manners.

The Secretary of Defense appeared before the Appropriations Committees and presented the amendments in program terms and I subsequently appeared and translated these program additions into the appropriation categories.

Senator JACKSON. Mr. Tufts?

Mr. TUFTS. Would it be a correct implication from your view of your new approach, Mr. Hitch, to say that you would expect the role of the Secretary to be somewhat larger in these program decisions in the future than it has been in the past?

Mr. HITCH. Yes, sir; I think the role of the Secretary will be somewhat larger in the future. Program decisions will be required in the future if this system is to work, which have not systematically been made in the past.

They are decisions of the sort which can only be made by the Secretary and, therefore, the role of the Secretary and of the Secretary's advisers will be greater. There will be, for the first time in the

Department a comprehensive set of programs approved by the Secretary.

To get such a set of programs we need Secretarial decisions. In the past, we have not had such a set of programs and therefore have not had the Secretarial decisions.

Mr. TUFTS. May I turn to the question of Defense relations with the Budget Bureau?

As I understand it, in the past, mainly for reasons of the technical complexity of the defense budget and the length of time required for its preparation, representatives of the Bureau have cooperated rather closely with your Office in the preparation of the defense budget?

Mr. HITCH. That is correct.

Mr. TUFTS. Has that been changed in any way?

Mr. HITCH. No, we expect to continue this joint review with the Bureau of the Budget.

Mr. TUFTS. In your judgment, does this practice, which is continuing, have any bearing on the independence of the Bureau's view, on its ability to advise the President, to help inform the President about the factors which he should bear in mind in his review of the defense budget?

As I understand it, the notion has been that the Bureau should preserve an arm's length relationship to the departments and agencies in the executive branch. One wonders whether there is quite this arm's length relationship between the Bureau and the Defense because of the close involvement of the Bureau personnel in the defense budget preparation.

Does this interfere in any way with the Bureau's responsibility at present?

Mr. HITCH. In theory, I suppose it might. I would say from my limited experience that the BOB seems to be able to maintain an independent point of view. I expect that ideally it would be better to have successive budget reviews, first within the Department, then by the Bureau. However, the amount of business to be done, and quantity of review that is required, is such that we just do not see how we can carry out completely separate reviews and fit the budget cycle into an annual timetable without adding a couple more months to the year.

Mr. TUFTS. Do the Bureau people participate in all of the three phases of your program: requirement phase, programing phase, and budget?

Mr. HITCH. No, sir, I am referring to the budget phase.

Mr. TUFTS. They do not participate in the first two.

Mr. HITCH. They are interested and we keep them informed, of course, but I do not anticipate that they will be regularly involved in the review during the requirements and program phase.

Mr. TUFTS. Insofar as you have succeeded in clearly separating these phases, the Bureau's participation will be limited to the final phase, the budgetary phase?

Mr. HITCH. Yes, sir, it will. Of course, as I have pointed out, after this year we envisage the requirements and programing phases as being continuous year-round operations. They will not be concentrated in any particular month or two of the year.

Mr. TUFTS. Now, at some point in this process, a budget limit has to be imposed. In your concept of budget preparation, where is the budget limit introduced, at what point and by whom?

Mr. HITCH. I do not think you have to impose a dollar ceiling at the service level. Certainly at some point the Secretary of Defense and the President and the Director of the Bureau of the Budget have to decide what the limit is for the Department of Defense as a whole.

As I see it, this is something that can be narrowed progressively as we go through this procedure. You can begin with some idea about the likely limit for the Defense Department as a whole in June, say. As you look over the program and decide what the utility of new programs will be, you can get a better fix on the best size of the budget as you proceed. By the time of the budget review proper, you will have a very definite idea as to the budget implications of the programs that you have approved. But I think it is a question of getting a better fix on overall requirements as you move ahead. You can do this if you know approximately how much benefit you could derive from new programs that are proposed.

Senator MUSKIE. Are you not, in effect, going to have two budgets under this proposal, the traditional one that is broken down according to three services and then this new one which in some way the committees of Congress are going to have to relate to each other?

Mr. HITCH. It will be one budget, sir. There will be two ways in which you can look at it, but we will reconcile them.

Senator MUSKIE. Who is going to be the program package commander? Each of these missions is going to have its own budget. Who is going to be the commander of that budget package?

Mr. HITCH. I do not know that each package will have a commander. The Secretary will be the Secretary for each program package as a whole.

Senator MUSKIE. You will have a general but no troops.

Senator JACKSON. There will be a lot of troops there. I have never been to a hearing yet that they did not have troops.

Mr. TUFTS. I suppose it is rather early to tell because you are only part way down in your list of submissions of the packages, but how is this working? Are the departments submitting new proposals for forces greatly in excess of what can be provided without a substantial increase in the budget?

Mr. HITCH. I think it is safe to predict that they will, yes, sir, and the evidence so far bears this out.

Mr. TUFTS. Then the process from here on out is to trim this down?

Mr. HITCH. Not exclusively. That is an important and arduous part of the job. But the real task is to insure that each program package provides the greatest overall capability for the resources expended.

It may be when you trim some things down that you have to put something in for balance, for example.

Mr. TUFTS. At what point in this paring down process to get to the eventual budget limit for Defense as a whole do you expect the Department to seek advice from outside the Department, from the National Security Council or from the President or Budget Bureau? How far does this go in the Department of Defense before you seek outside guidance?

Mr. HITCH. I think this is a question that we had better leave for the Secretary to answer in the hearing next month. I know he has ideas

about this but I think it would be more appropriate for him to address himself to it.

Mr. TUFTS. I was struck by the statement in your testimony that each Department and the Joint Chiefs of Staff as a corporate group is receiving copies of all the materials submitted by each Department. Now, is each Department and the Joint Chiefs as a corporate body commenting on each proposal?

Mr. HITCH. Yes, sir, each will be given ample opportunity to comment and explain their judgment on the overall package.

Mr. TUFTS. In other words, Navy will comment on SAC and the Air Force on POLARIS and so on?

Mr. HITCH. They will be given every opportunity to do so and I think this is entirely proper. I think each of the services ought to comment on the program as a whole.

It is certainly of interest to the Army, for example, how much we devote to strategic offensive forces even though they may have no element in the strategic offensive package.

Senator JACKSON. Has this approach been followed in the past, do you know, where each could comment and information was supplied so that they could comment?

Mr. HITCH. I really cannot answer that question very authoritatively. Perhaps you could get a better answer from Mr. McNeil tomorrow.

Senator JACKSON. What I gather you are trying to do is to take this budget document I have here—and, incidentally, although this is the whole budget, and Defense is over a half of the total, Defense is only one-eighth of the pages in here. It seems to me that you are really trying to take this document and make it possible for our military and civilian leaders to understand what is available to them in working out a long-range plan for national security.

Mr. HITCH. That is a good way to summarize it, Mr. Chairman.

Senator JACKSON. I want to commend you, Mr. Hitch, on what you are trying to do because those of us who have looked at budgets in general find them complicated.

I think when you get into the Defense budget it is even more complicated because in the committees we have been getting these programs in pieces.

What you are trying to do is to make it possible to put these pieces together in different shapes and forms to meet the requirements of your country as determined by the President of the United States in the last analysis?

Mr. HITCH. That is a very good way of stating it.

Senator JACKSON. I certainly feel that what you are trying to do is a most important undertaking. I know there is no simple solution to this problem.

This may be a premature question. I suppose you may not know the answer right now. But what is the reaction of the services to this approach so far?

Mr. HITCH. I find that a very difficult question to answer at this time.

Senator JACKSON. Could you answer it better when they know how much money they will get?

Mr. HITCH. I expect that I will have a better fix on it when some of the decisions are made under the system.

I must say, though, that I have had the fullest cooperation from the services. I have no complaint whatever on that score. We have been working very closely with them in connection with both the longer range programing procedures and with all of these reviews that we have had to make, that is, the reviews and rereviews of the fiscal year 1962 budget. We have had nothing but full cooperation from the services.

Senator JACKSON. I have one last question. I have always been concerned about the amount of time consumed in preparing budgets. In other words, responsible officers who have enormous responsibilities are often tied up, working in effect on three budgets at one time. Do you hope to be able to at least cut down on some of the time-consuming tasks and to make it possible not only from the standpoint of saving manpower but to make the budgets more current?

Mr. HITCH. Yes, sir, this we do hope to do.

Senator JACKSON. You agree that at least there should be a better solution?

Mr. HITCH. Yes, as I said in my statement we have the hope that once we get this programing procedure rolling we will be able to pull together rather quickly in the fall of the year the financial budget for the next fiscal year.

Senator JACKSON. And cut down the long leadtime?

Mr. HITCH. And cut down the long leadtime.

Senator JACKSON. We find in the Congress, Mr. Hitch, that we spend hours and hours authorizing and appropriating funds. It is a time-consuming job.

I know from my own personal experience that after we have taken detailed testimony and have gone into a matter very carefully, we have been advised that these programs are urgent, only to find by the time the process is complete that some programs have already been canceled. Not that our time alone is important but it is important for all those who participate. I mean we have the top officers up here. It seems to me if you can achieve your objective of keeping the requirements quite current, that you will save a lot in the way of our country's resources, both material and human.

Mr. HITCH. I think we can cut down on leadtime by keeping the programs current.

Senator JACKSON. This is not to say that there are not going to be changes.

Mr. HITCH. No, sir, there will be changes.

Senator JACKSON. There will be changes continuously. Research and development programs will always play hob with the best-laid plans, will they not?

Mr. HITCH. That is right.

Senator JACKSON. Senator Muskie, do you have any further questions?

Senator MUSKIE. No further questions. I want to say I appreciate the opportunity to participate in this hearing. I want to compliment the Department of Defense and the administration upon this attempt to find a more effective way to make important decisions that involve the development of our defense posture.

Mr. HITCH. Thank you.

Senator JACKSON. We are very happy to have the minority counsel Mr. Kreger, here, this morning. He has deferred any questions at this hearing for another occasion.

On behalf of the committee, Secretary Hitch, we want to express again our appreciation for your coming here and the helpful testimony you have given us today.

Mr. HITCH. Thank you, Mr. Chairman.

(Whereupon, at 12:25 p.m., the subcommittee recessed, to reconvene at 10 a.m., Tuesday, July 25, 1961.)

ATTACHMENT A

ASSISTANT SECRETARY OF DEFENSE,
Washington, D.C., May 13, 1961,

Memorandum for—

The Assistant Secretary of the Army (FM).

The Assistant Secretary of the Navy (FM).

The Assistant Secretary of the Air Force (FM).

Attached is the first in a series of instructions providing guidance to the military Departments for the development and submission of program packages to my office during the programming phase of the fiscal year 1963 budgetary process. This initial set contains general instructions applying to all Departments, along with the list of program elements and packages and the time schedule for submitting the various program packages.

Additional instructions will be provided in the near future. These will be special instructions applicable to the individual Departments including specific formats for submission purposes. Certain initial alternative program element configurations of particular interest to the Secretary of Defense will also be set forth.

I fully realize the magnitude of the task over the next few months but am confident that the immediate objectives of the programming office can be met through the concerted efforts of all concerned. In every way possible, personnel of the programming office will work with departmental personnel to assist in preparing for development of the program elements and packages to be submitted.

CHARLES J. HITCH.

INSTRUCTION NUMBER I. GENERAL INSTRUCTIONS

The fiscal year 1963 budgetary process will be divided into three major phases: a requirements phase (May and June 1961), a programming phase (July and August 1961), and a budgetary phase thereafter. During the requirements and programming phases, the Secretary of Defense, with his military advisers and his staff, will examine a range of alternative programs and make decisions that will form the basis for guidance to the services on the preparation of the fiscal year 1963 budget. During the programming phase, attention will be focused on choice from among alternative programs to achieve the national security objectives outlined in the basic national security policy paper. For this purpose, cost and effectiveness comparisons will be made, for the most part using statistical cost estimates and factors rather than the more detailed information supporting the final budget submission.

The purpose of this memorandum is to provide guidance regarding the submission of program element packages to OSD during the period July 1–August 31, 1961.

PROGRAM ELEMENTS AND PROGRAM PACKAGES

The program element will be the basic unit of submission. A program element is an integrated activity—a combination of equipment, men, facilities, and supplies—whose effectiveness can, in some way, be related to national security policy objectives. For purposes of summarization, the program elements have been combined into a number of program packages. The program packages are compilations of related program elements. For example, the “Central War Offensive Forces” category is a program package. The B-52, ATLAS, and FBM submarine (POLARIS) weapon systems are examples of program elements within the Central War Offense Forces program package.

A listing of program packages and their program element content is contained in appendix I (attachment B).

The departments will submit program packages to the OASD (Comptroller) in accordance with the schedule outlined. Twenty copies of each program element and package will be submitted on standard 8- by 10½-inch sheets.

BASIS FOR DEVELOPING THE PROGRAM

Element submissions

The basic OSD-required submission for a program element will be the projected major military forces contained in the JCS answer to the Secretary of Defense's project No. 3 (the so-called Wheeler forces). The Departments will be required to work out the cost implications of these forces on a program element basis assuming no new major procurement and R. & D. decisions over and above those already made in the fiscal year 1962 and prior years' budget deliberations, and assuming that the forces involved would be deployed and operated as currently envisioned. In this context the phrase, "decisions already made," is defined to include those definitely implied, though not technically authorized, in fiscal year 1962 and prior years' deliberations. For example, in the fiscal year 1962 process, several additional POLARIS submarines were authorized for procurement, but the related missiles were not specifically authorized because of the shorter lead-time on the missiles. In this case, and others similar to it, the procurement decision for the missiles is an implied one (from that for the submarines) and hence the cost of the missiles would be included in the "spendout" costing of the Wheeler forces. Military personnel for fiscal year 1962 are to be considered as a maximum only and not part of the force structure.

The costing of the Wheeler forces will be done in terms of obligational authority and expenditures for fiscal years 1962-64. (Costs cannot be developed for later time periods, because the Wheeler force structures are projected out only to fiscal year 1965.) These costs will be submitted according to the program element submission schedule referred to above, except that a total for fiscal year 1962, identified by program element will be submitted to OSD by June 12, 1961. This June 12 submission may be preliminary in nature, to be refined later as submissions are made during the period June-September.

In addition to the spendout costing of the Wheeler forces, the Departments will be required to make departmental submissions. The basis for these submissions will be as follows.

The "Basic National Security Policy" (BNSP) paper will be circulated in the near future. Based on this, and other guidance provided by the Secretary of Defense, the military Departments will develop force structure projections (fiscal year 1961-70), representing departmental proposals for attaining the national objectives. These force structures will serve as the framework for developing departmental proposals of program elements to the Office of Assistant Secretary of Defense (Comptroller), and will provide the context in which the time-phased resource implications of individual program elements can be estimated. The Departments are encouraged to submit alternative configurations of program elements where deemed desirable.

Additionally, during both the requirements phase and the programing phase, the Secretary of Defense will want to consider alternatives within particular program elements. For example, the Secretary may want to consider a different force size, development program, operational concept, etc. Some initial alternatives will be issued in the immediate future. When the Secretary desires only alternatives during the requirements or programing phases, they will be submitted to the Departments to be costed. The appropriate Department will consider each alternative as a variation to the departmental proposed program element submission, work out the costs thereof, and, where possible, point out the possible impact on other program elements.

CONTENT AND FORM OF THE SUBMISSION FOR A PROGRAM ELEMENT

There will be two components to the submission for each program element: a program element description component, and a cost component.

The program element description component will contain sufficient descriptive information to provide basis for an understanding of what has been costed in the cost component of the program element submission. Discussion of the data desired from the Departments will be contained in the special instructions for each Department.

The cost component will be submitted in tabular form indicating cost estimates by budget appropriation account for each fiscal year. Also, sufficient detail will be provided so that: (1) cost estimates for a program element may be approximately segregated, where applicable, into three broad categories—R. & D., investment, and operating cost; and (2) cost estimates for major equipment items (e.g., ships, tanks, aircraft, missiles, etc.) may be identified. Specific format will be discussed in more detail in the special instructions for each of the Departments.

The three broad categories referred to above are defined as follows:

Research and development.—All costs associated with developing a new capability to the point where it is ready for introduction into operational use. Such costs include not only the equipment (prototypes, test vehicles, etc.) required in a development program, but also the related facilities, supply, and personnel costs, where applicable.

Investment.—The one-time or initial outlays required beyond the development phase to introduce a new capability into operational use (including initial training, initial stockloads of spares and supplies, etc.).

Operating.—The recurring costs required to maintain and operate the capability year by year throughout its projected life in operational use.

SUMMARY SUBMISSIONS

In addition to the program element submissions discussed above, the Departments will develop summary program package submissions. The format for these submissions will be as follows: fiscal years (1962-67) in the column headings; program elements in the stub. Summaries will be submitted for: (1) the OSD basic request (the "spendout costing" of the Wheeler forces); and (2) the departmental proposals.

PROGRAMING/COSTING TIME HORIZON

The time horizon specified for developing the program element packages is as follows:

	Force structure, ¹ fiscal year 1961	Cost estimates, fiscal year 1962
Wheeler forces.....	65	64
All other.....	70	67

¹ Yearend position.

COSTING CONCEPTS

Program element costs will be developed in terms of total obligational authority and expenditures. All costs will be presented in terms of 1961 dollars.

Costs for each program element will reflect the total costs that may reasonably be identified to that program element. The major criterion for this purpose is as follows: Is a particular item of support cost likely to vary with changes in the program element under consideration? If so, identify the cost to the program element. If not, do not identify the cost to the program element.

MOBILIZATION RESERVES

Each service will cost mobilization materiel procurement objectives in support of the projected force structure through fiscal year 1967. War readiness materiel or specific prepositioned deterrent objectives, not to exceed 90 days, will be costed to applicable force/weapon system program elements and separately identified. Peacetime allowances will be treated as part of the war readiness materiel or prepositioned deterrent. General mobilization reserve objectives (other than WRM and prepositioned deterrent) will be costed by major items under the servicewide support program package.

TREATMENT OF MATS AND MSTs

The general rules for treatment of MATS and MSTs are as follows:

(1) "Funded costs" (e.g., cost of new procurement and military personnel cost) will be included in the MATS and MSTs packages.

(2) "Tariff costs" will be included in the various departmental program elements using the services of MATS and MSTs. However, a total of MATS and MSTs tariff charges (separately identified) for each Department will be submitted as a memorandum item when the Departments submit their respective servicewide support program packages.

RESERVE AND NATIONAL GUARD FORCES

All Reserve and National Guard forces will be included in the Reserve and National Guard forces program packages. However, those forces which are, in effect, on active status (e.g., interceptor squadrons on alert duty) will be so identified—both in terms of the forces involved and their approximate costs.

Program package submission schedule

<i>Program package</i>	<i>Submission date to OASD (Comptroller)</i>
I. Central war offensive forces-----	July 3
II. Central war defensive forces-----	Aug. 21
III. General purpose forces-----	July 31
IV. Sea and airlift forces-----	July 19
V. Reserve and National Guard forces-----	July 10
VI. R & D (including "Space")-----	Aug. 14
VII. Servicewide support-----	Aug. 28
VIII. Classified projects-----	Aug. 31
IX. DOD-----	Aug. 31

ATTACHMENT B

PROGRAM PACKAGE AND PROGRAM ELEMENT LIST

Revised June 1, 1961

I. Central War Offensive Forces:

Aircraft forces:

B-52 (Including separate identification of GAM's)

B-58

B-47 and RB-47

KC-135

RC-135

KC-97

B-70

Missile forces, land-based:

ATLAS

TITAN

MINUTEMAN H. & D.

MINUTEMAN Mob.

THOR

JUPITER

Missiles, sea-based:

FBM submarines

REGULUS submarines

Command, control, and communication

Headquarters and command support

II. Central War Defensive Forces:

Air defense interceptors (includes GAR's):

F-101

F-102

F-104

F-106

F-4-D

Surface-to-air missile forces:

NIKE-AJAX battalions

NIKE-HERCULES battalions

NIKE-ZEUS units

BOMARC

Surveillance and warning systems:

Ground environment 416-L

BMEWS

DEW line

DEW line extension

A.E.W. & C.

Picket ships

Bomb alarm

Command, control, and communications:

Missile master

Norad COC

Other Conad/Norad (except headquarters)

Headquarters and command support:

Norad

ADC

AAC

USARADCOM

Other

III. General purpose forces:

Army:

Airborne divisions

Armored divisions

Infantry divisions

Mechanized divisions

Infantry brigades

Armored combat commands

Missile commands (air transportable)

Infantry battle groups

Artillery groups (REDSTONE)

Special forces groups

Armored Cavalry regiment

Air defense battalions (HERCULES)

Air defense battalions (HAWK)

Air defense battalions (AW)

Tank battalions

Engineer battalions (combat)

Engineer battalions (construction)

Artillery battalions (CORPORAL)

Artillery battalions (LA CROSSE)

Artillery battalions (HONEST JOHN)

Artillery battalions (LITTLE JOHN)

Artillery battalions (SERGEANT)

Artillery battalions (PERSHING)

Artillery battalions (280-millimeter gun)

Artillery battalions (8-inch howitzer)

Artillery battalions (175-millimeter gun)

Artillery battalions (155-millimeter howitzer)

Artillery battalions (105-millimeter howitzer)

Armored infantry battalions

Tank companies

Aviation companies

Infantry companies

Air defense batteries (AW)

Artillery batteries (105 millimeter howitzer)

Combat supporting elements

Other supporting elements

Command and control

Naval Forces:

Attack carriers, *Essex* classAttack carriers, *Midway* classAttack carriers, *Forrestal* classAttack carriers, *Enterprise* classAttack carriers, *Forrestal* class, missile

Cruisers, CA—heavy cruiser

Cruisers, CAG—heavy cruiser, missile

Cruisers, CLG—light cruiser, missile

Cruisers, CG(N)—Cruiser, missile, nuclear power
Cruisers, CG, missile
Cruiser, CLG—light cruiser, TYPHON missile
Destroyers, DL frigate
Destroyers, DLG—frigate, missile
Destroyers, DLG(N)—frigate, missile, nuclear power
Destroyers, DD—destroyer, general purpose (other than FRAM I)
Destroyers, DDG—destroyer, missile
Destroyers, DDE—escort destroyer
Destroyers, DDR—radar picket destroyer (other than FRAM I)
Destroyers, DD—general purpose (FRAM I)
Destroyers, DDR—radar picket (FRAM I)
Amphibious ships, AGC—amphibious force flagship
Amphibious ships, LPH—assault ship (helicopter) (new)
Amphibious ships, LPD—transport, dock (landing craft, helos)
Amphibious ships, LSD—dock landing ship (landing craft)
Amphibious ships, LST—tank landing ship (heavy material)
Amphibious ships, APSS—transport submarine
Amphibious ships, AKA—attack cargo ship (landing craft and material)
Amphibious ships, APA—attack transport (landing craft and troop equipment)
Amphibious ships, APD—attack transport fast (landing craft)
Amphibious ships, LPH—assault ship helicopter (CVS conversion)
ASW carriers
Submarines, SS—general purpose
Submarines, SS(N)—general purpose, nuclear power
Submarines, SSG, missile
Submarines, SSG(N)—missile, nuclear power
Patrol ships, DE—general purpose patrol ship
Patrol ships, DER—radar picket patrol ship
Patrol ships, DEG—missile patrol ship
Patrol ships, DEK
Seaplane tenders AV and AVM—large seaplane tenders
Seaplane tenders AV—small seaplane tenders
Mine warfare ships, DM—minelayers
Mine warfare ships, MC—mine countermeasures craft
Mine warfare ships, MSC
Mine warfare ships, MSO
Mine warfare ships, LSD
Underway replenishment ships, AO—oiler
Underway replenishment ships, AOE—fast combat support ship
Underway replenishment ships, AE—ammunition ship
Underway replenishment ships, AKS—general stores issue ship
Underway replenishment ships, AF—combat store ship (refrigerator)
Underway replenishment ships, AFS—fast combat store ship
Underway replenishment ships, AOR—fast oiler and store ship
Underway replenishment ships, AVS—cargo and aircraft ferry
Major fleet support ships, AD—destroyer tender
Major fleet support ships, AR—repair ship
Major fleet support ships, ARG—engine repair ship (advance base)
Major fleet support ships, AS—submarine tender
Major fleet support ships, AGB—icebreaker
Major fleet support ships, AVB—aviation advanced base ship
Major fleet support ships, AGMR—communications relay ship
Minor fleet support ships assigned to active fleets
Miscellaneous ships not assigned to active fleets
Auxiliary and special combat support units
Attack carrier airgroups (by squadron and type aircraft)
Patrol squadrons, land-based (by squadron and type of aircraft)
Patrol squadrons, sea-based (by squadron and type of aircraft)
ASW carrier airgroups (by squadron and type aircraft)

Fleet combat support squadrons VW (radar aircraft)
 Fleet combat support squadrons VQ (ECM aircraft)
 Fleet combat support squadrons—VFP/VAP (photo aircraft)
 Fleet tactical support squadrons VR—transport (by type)
 Fleet tactical support squadrons HU—helicopter (by type)
 Fleet tactical support squadrons, VU—utility (by type)
 Command, communications, and command support

Marine division/wing teams:

Divisions
 HAWK battalions
 Heavy artillery rocket batteries (HONEST JOHN)
 Tank battalions
 Close support artillery weapons battalions
 Wings (by aircraft and squadron)
 Fleet Marine Forces (including command, communications, and command support)

Air Force:

F-100
 F-101
 F-104
 F-105
 TFX
 B-66
 B-57
 RF-101
 RF-105
 RB-66
 KB-50
 MATADOR
 MACE
 MRBM
 F-102
 F-106
 Theater command, control, and communications
 Theater headquarters and command support

IV. Sealift and airlift:

Troop carrier wings (including theater airlift):

C-123
 C-124
 C-130
 C-141

Headquarters and command support

Military Air Transport Service:

C-118
 C-121
 C-124
 C-130
 C-133
 C-135
 C-141

Naval personnel assigned to MATS

Headquarters and command support

Military Sea Transportation Service:

Commissioned Naval ships (by type)
 Civil service manned ships (by type)
 Headquarters and command support

V. Reserve and National Guard Forces:

STRAC and theater reinforcements:

Infantry divisions
 Infantry brigades
 Combat and combat supporting elements
 Other supporting elements
 Command and control

Ready Reserve (STRAF):

Infantry divisions
 Armored divisions

- Combat and combat supporting elements
- Other supporting elements
- Command and control
- Ready Reserve mobilization:
 - Infantry divisions
 - Armored divisions
 - Combat and combat supporting elements
 - Other supporting elements
 - Command and control
- Air defense onsite
 - Air defense battalions (AJAX)
 - Air defense battalions (HERCULES)
- Headquarters, command, and support
- ASW ships:
 - DD
 - DE
 - SS
 - Patrolcraft
- ASW aircraft:
 - VP squadrons, land-based
 - VP squadrons, sea-based
 - VS squadrons, carrier-based
 - VS squadrons, carrier-based (helicopters)
- Mine countermeasure units (MSC)
- Attack carrier air units:
 - VF squadrons—fighter aircraft
 - VA squadrons—attack aircraft
 - HU squadrons—utility helicopters
- Fleet augmentation (designated individual officers and EM's)
- Fleet support activities units:
 - Advance base command units
 - Amphibious beach command units
 - CB units
 - Harbor defense units
 - MSTS units
 - Aviation maintenance units
 - Ship activities maintenance and repair units
 - Ships supply department units
- Shore Establishment units:
 - Naval Reserve training not assigned to other elements
 - Reserve tactical air transport, VR
 - Reserve combat support aircraft
- Marine Corps division/wing team reserves:
 - Organized Reserve, ground
 - Organized Reserve, air
 - Inactive Reserve, ground
 - Inactive Reserve, air
- Tactical fighter/tactical reconnaissance squadrons (including tankers):
 - F-86
 - F-100
 - F-101
 - KB-50
 - Other (by A/C type)
- Tactical airlift:
 - Transport
 - Troop carrier
 - Air rescue
 - Aero-med transport
- Air defense interceptors:
 - F-89
 - F-102
 - Other (by A/C type)
- Other Reserve activities:

V. Reserve and National Guard Forces—Continued

Headquarters and command support (including Headquarters, CONAC)

National Guard Bureau:

Army contribution

USAF contribution

VI. Research and development:¹

Army:

Basic research

Applied research

Management and support

Ranges

USAEPC field test facility

Tactical communications

Tactical applications of ADPS

Aerial combat surveillance equipment and system

Ground based combat surveillance equipment and system

Unmanned aerial surveillance system

Light observation helicopter

Aircraft propulsion systems

Operational evaluation V/STOL

Nuclear powerplants

MAULER

PERSHING

Extended range PERSHING

Missile A/B (w/AK)

SHILLELAGH

Assault reconnaissance vehicle

Tank, main battle

Aerial crane

Navigation and air traffic regulations

Other development projects

Naval Forces:

Basic research

Applied research

Management and support

Pacific Missile Range

TYPHON

Naval tactical data system

Vertical takeoff and land/triservice (VTOL)

Mark 46 torpedo

Marine Corps tactical data system (MTDS)

Other engineering developments

Air Force:

Basic research

Applied research

Research support

Development support (STL, MITRE, Rand, etc.—List)

Operational support development

Missile ranges (Atlantic)

X-15 (653A)

ANP (657A)

Recoverable boosters (656A)

Triservice VTOL (498B)

System studies (699A)

ASG/18-GAR/9

Penetration aids

Development planning studies

R. & D. not otherwise identified (list major efforts by PE number)

Test instrumentation

Headquarters and command support (Office of Aerospace Research)

¹ Not associated with other program elements.

Space systems (all services) :

- ADVENT
- TRANSIT
- SAMOS
- MIDAS
- DISCOVERER
- DYNA-SOAR
- Communications satellite

ARPA:

- Project DEFENDER
- Project VELA
- Other projects

VII. Servicewide support:

Army:

- Recruit (replacement) training
- Professional training (including ROTC)
- Service academies
- Supply operations
- Maintenance activities
- Single manager operations
- Other joint service projects
- Port operations
- Intelligence
- ASA
- Mapping and geodesy
- Reserve industrial capability
- Inactive installations (nonindustrial)
- Procurement for mobilization reserves (by major item)
- Army stock fund
- Command and direction (higher headquarters, including DOD-JCS)
- Specialized financial and administrative support
- Communications
- Installation operations and construction not associated with other program elements (including family housing)
- International activities (not including MAP)
- Alaska communications
- Medical services

Naval Forces:

- Recruit training (including recruiting)
- Flight training
- Professional training (including ROTC, PG schools)
- Technical training
- Service academies
- Headquarters and command support
- Supply management
- Supply operations
- Navy petroleum reserves
- Naval contingencies
- Naval intelligence
- Reserve Fleet (by categories) (identify by PE numbers)
- Reserve A/C (by class)
- Reserve industrial facilities
- Inactive installations
- Procurement for mobilization reserves (by major item) (identify by PE number)
- Navy stock fund
- Marine Corps stock fund
- Communications systems

VII. Servicewide support—Continued

Naval forces—Continued

Command and direction (higher headquarters, including DOD-JCS)

Naval district headquarters

Support activities, bases

Family housing

Specialized financial and administrative support

Special Navy and Marine Corps operating activities

Special fleet operations

Hydrographic and oceanographic

Medical

Transients, patients, and prisoners

Air Force:

Recruit training

Technical training

Flying training

Professional training (including ROTC and headquarters AU)

Service academies (including AFA)

Headquarters and command support

Maintenance activities

Supply activities

Transportation (other than FDT)

Procurement activities

Logistics base support

Headquarters and command support (including AFLC)

Logistic support squadrons

Intelligence

USAFSS

Reserve industrial facilities

Inactive installations

Procurement for mobilization reserves (by major item)

USAF aerospace communications complex (Air Com)

Traffic control and landing

Air Force communications centers

Headquarters command control

Command and direction (higher headquarters, including DOD-JCS)

Base operation/construction and procurement not associated with other program elements (including family housing)

Weather service

Weather reconnaissance (WB-50, WB-47)

Medical support (nonorganic)

Aeromed Transport (C-131, C-140)

SAM (1254th Air Transport Special Mission Wing)

Air rescue

Mapping and charting

VIII. Classified projects

IX. Department of Defense:

Office of Secretary of Defense:

Retired pay

Operations and maintenance

Emergency fund

OSD miscellaneous

Defense Atomic Support Agency

Defense Communications Agency

Armed Forces Supply Support Center

ATTACHMENT C

MAY 19, 1961.

MEMORANDUM FOR THE ASSISTANT SECRETARY OF THE NAVY (FM)

To supplement the general guidance for the development and submission of program packages provided by my memorandum of May 13, 1961, a set of detailed instructions which apply specifically to your Department is attached. The content of these instructions has been reviewed with members of your staff and, insofar as possible, reflects their comments and suggestions.

CHARLES J. HITCH,
Assistant Secretary of Defense.

INSTRUCTION No. 2C: SPECIAL INSTRUCTIONS TO DEPARTMENT OF THE NAVY FOR
PROGRAM PACKAGE SUBMISSIONS

The following instructions for the Department of the Navy are supplemental to the general instructions for the development of program packages transmitted by memorandum of May 13, 1961.

Addenda to the list of program elements may be necessary, by informal agreement, during the next few weeks. Required changes will be formalized later. Program elements should be assigned security classifications consistent with their contents. Program elements classified higher than secret should be included in the "Classified Projects" program package. In such cases the original program element number should be identified.

Force level projections for each of fiscal years 1961-1970, serving as the basis for costing program elements will be submitted to the programming office 2 weeks after receipt of the draft Basic National Security Policy paper. Alternate proposals may also be presented for separate consideration.

The purpose of the program element description component called for in the general instruction will be to provide descriptive information, nonfinancial in nature, which will provide an understanding of what is being presented. Since measures of effectiveness vary from one program element to another, no single format or definition of narrative content can be described. The following suggestions, however, are illustrative of the desired program information:

- (a) Force structure and deployment commitments.
- (b) Missions and tasks of the force-weapon system-program element.
- (c) Description of major systems or equipments and their performance characteristics.
- (d) Description of supporting items such as armament, ship and ground support equipment.
- (e) Equipment status of the force-weapon system-program element.
- (f) Status of supporting projects such as research, evaluation, test, military construction, special training, etc.
- (g) Activity and tempo rates, such as steaming and flying hours, initial spares factors, logistic support factors, etc.
- (h) Measures of effectiveness or capability of program element.
- (i) Average or year-end personnel strengths for program elements (officers, enlisted, civilians, contractor personnel-technicians, etc.).
- (j) Maintenance, overhaul, and rework concepts and policies.
- (k) Projected delivery schedules of forces or major weapons systems (ships, aircraft and missiles).
- (l) Concepts and assumptions used in developing prepositioned deterrent items and general mobilization reserves.

As indicated in the general instruction, cost estimates are to be developed by fiscal years in terms of total obligational authority and expenditures. These terms are defined as:

Total obligational authority.—The total funds programed in each fiscal year from all sources, including new obligational authority, transfers, carryover of prior year funds, and reimbursements which benefit Navy and Marine Corps programs.

Expenditures.—Payments in each fiscal year for assets acquired or goods and services received.

As indicated in the general instruction costs of supporting activities such as training, operation and maintenance should be allocated to program elements if they are likely to vary significantly with changes in the program element. Some specific applications of this general rule have been discussed with Navy Department representatives and agreements reached on methods of allocating costs of supporting activities.

It is recognized, however, that additional problems of cost allocation will require decisions during the process of developing the program package submissions. Representatives of the programing office will be available for consultation on specific questions of cost allocations and revision to the program package list.

Program element costs should be submitted in a format similar to attachment 1. The objective of the format is to identify program element costs with funding sources. The subcolumn should therefore indicate appropriate subcost categories to identify what has been costed. Subtotals should be shown for the primary cost categories i.e. research and development, initial investment, and annual operating.

In several instances, program elements listed under the research and development and servicewide support packages are intended to collect residual costs which cannot be meaningfully allocated to other program elements. Adequate details should be kept of costs distributed to several program elements to facilitate review and possible development of alternative estimates.

Major items such as missiles, tanks, weapons, ASW equipment, etc., i.e., Tartar, Bullpup, Hawk, M-60 Tank, Dash, ASROC, SUBROC, torpedoes, etc., will be listed as subcost categories.

A summary sheet should be prepared, listing by item, mobilization reserve procurement objectives (quantities and cost) separately costed under the general purpose forces and servicewide support packages. Available assets (provided through fiscal year 1962) will also be shown, by item.

Research and development.—Where identifiable, research and development, test and evaluation, will be related to a program element. For R. & D. items which contribute to several program elements (e.g. Typhon), indicate such, without entering costs. The direct cost will be shown as a program element under "Other R. & D."

Initial investment.—These are the outlays necessary for major improvement, modernization, or acquisition of new force capabilities. Such costs are generally those financed under the procurement accounts; "Shipbuilding and Conversion," "Procurement of Aircraft and Missiles," "Other Procurement, Navy," "Marine Corps Procurement"; and "Military Construction, Navy." Additional inventories will be considered as a part of the initial investment. Identifiable costs of special training required to activate new units will also be included as initial investment.

For appropriate Marine Corps units (e.g., a ground unit), initial investment includes:

(a) Equipment procured to provide a new unit with its initial issue, including support and general organizational equipment, and initial spares and a pro-rata share of additional depot and pipeline inventories which may be generated by the establishment of the new unit.

(b) Equipment to bring an existing unit up to full allowance.

(c) Equipment to reequip an established unit, and which increases unit combat capability or effectiveness.

Replacement-in-kind for wear-out or attrition is part of annual operating cost. To distinguish between replacement equipment and initial investment equipment, consider all procurement of a new model as initial investment, even though some fraction of the total procurement may replace wear-out or attrition of earlier items.

Operation and maintenance.—These are the recurring costs for support of the operations of the program element. Training costs include direct, indirect and weapons (ordnance) training. "Direct training costs" are those directly identifiable to the program element (e.g. ships, personnel). "Indirect training costs" include general and specialized training which contribute to several program elements. "Weapons training costs" are those related to ordnance and ammunition usage for noncombat crew proficiency training. Where required, allocation of training costs will be statistical, as a function of the manning level of a program element or weapon system, as appropriate.

The general rule for identifying training costs for allocation is as follows: If the particular item of training is primarily a function of the total Naval or Marine Corps structure, it will not be identified with an individual program element; if it exists primarily as a result of the existence of a program element, identify and allocate it as such. In particular:

(a) Recruit training will not be identified or allocated. It will appear as a program element under servicewide support.

(b) Flight training. Advanced and combat crew training which can be identified to program elements will be allocated. The remainder will be shown under appropriate entries in servicewide support.

Repair and overhaul costs will include costs for overhauls, reworks, repairs and upkeep of program elements. "Fuel costs" include all petroleum products and utilities attributed to a program element. Facilities repair costs are those upkeep and maintenance costs clearly attributable to a program element.

Supply costs will be either direct or indirect. Direct supply costs are identifiable with the program element on an issue basis. Indirect supply costs will result from statistical measurements and be allocated to program elements.

Military pay, allowances and travel.—These costs will be projected as a function of military personnel involved in the program element, on a statistical basis where required.

Cost summaries.—In addition to the program element cost sheets additional summary data will be required as follows:

(a) For each program element, a summary of cost categories, by fiscal years, on one page. See attachment 2.

(b) For each program package, a summary of program elements, by fiscal years. See attachment 3.

(c) For each program package, a summary by appropriation titles by fiscal years. See attachment 4.

(d) For each program package a summary of cost categories by fiscal years. See attachment 5.

(e) In addition to program element and package summaries Navy and Marine Corps will provide acquisitions projections (shopping lists—quantities and cost) for specific models of weapons systems, i.e. ships, aircraft, missiles, tanks, etc., by cost categories. See attachment 6.

Format for Presentation of Estimates
for Department of Navy Program Elements

Program Element	Fiscal Year	Cost	Research & Development	Procurement	Military Construction	O&M	Mil Pers	Total	Obligational Authority	Expenditures
Category										
Research & Development										
Initial Investment										
Ships										
Aircraft										
Missiles										
Equipment										
Facilities										
Initial Inventories										
Pre-positioned deterrent (net)										
Training										
Etc.										
Operating										
Overhead, Repair & Rework										
Fuel and Utilities										
Facilities										
Supplies - Direct										
Supplies - Indirect										
Training - Direct										
Training - Indirect										
Training - Ammunition										
Training - Missiles										
Military Personnel										
Etc.										
Grand Total										

Note: As an alternative, the program element format could be re-designed to have the sub column identify appropriation titles, sub-cost categories, and budget projects. Cost projections for each of Fiscal Years 1962-1967 could then be presented across the page.

Attachment 1

PROGRAM ELEMENT SUMMARY FORMAT

Program Element _____

<u>Cost Category</u>	<u>FY 1962</u>	<u>FY 1963</u>	<u>FY 1964</u>	<u>FY 1965</u>	<u>FY 1966</u>	<u>FY 1967</u>
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Obligational Authority

R&D

Initial Investment

Annual Operations

Total

Expenditures

R&D

Initial Investment

Annual Operations

Total

Date: _____

ATTACHMENT #2

PROGRAM PACKAGE SUMMARY

Program Package _____	Obligational Authority Expenditures					
Program Elements	<u>FY 1962</u>	<u>FY 1963</u>	<u>FY 1964</u>	<u>FY 1965</u>	<u>FY 1966</u>	<u>FY 1967</u>
Attack Carriers Essex Class						
Attack Carriers MIDWAY Class						
Attack Carriers FORRESTAL Class						
Marine Division						
Marine Airwings						
Attack Carrier Airgroups						
Etc.						

Total

Date: _____

ATTACHMENT #3

PROGRAM PACKAGE SUMMARY

Obligational Authority
Expenditure

Program Package _____

	<u>FY 1962</u>	<u>FY 1963</u>	<u>FY 1964</u>	<u>FY 1965</u>	<u>FY 1966</u>	<u>FY 1967</u>
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Appropriation

RDT&E

Shipbuilding and Conversion

Procurement, Marine Corps

Military Construction

Operation and Maintenance

Military Personnel

Etc.

Total

Date: _____

ATTACHMENT #4

PROGRAM PACKAGE SUMMARY

Program Package _____					
Cost Category	<u>FY 1962</u>	<u>FY 1963</u>	<u>FY 1964</u>	<u>FY 1965</u>	<u>FY 1966</u>
Obligational Authority					<u>FY 1967</u>

R&D
 Initial Investment
 Annual Operations
 Total

Expenditures

R&D
 Initial Investment
 Annual Operations
 Total

Date: _____

ATTACHMENT #5

Format for Presentation of Estimates on
Individual Weapons & Major Items of Equipment

Item	Obligational Authority					
	Expenditures					
	<u>FY 1962</u>	<u>FY 1963</u>	<u>FY 1964</u>	<u>FY 1965</u>	<u>FY 1966</u>	<u>FY 1967</u>
1. <u>HAWK</u>						
R&D						
Procurement						
Construction						
Other*						
Total						
Programmed Deliveries						
2. <u>A2F-1 Aircraft</u>						
R&D						
Procurement						
Construction						
Other*						
Total						
Programmed Deliveries						
3. Etc.						

**For presentation of the identifiable cost of supporting activities, such as training and maintenance.

Date: _____

ATTACHMENT #6

THE BUDGET AND THE POLICY PROCESS

TUESDAY, JULY 25, 1961

U.S. SENATE,
SUBCOMMITTEE ON NATIONAL POLICY MACHINERY,
COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

The subcommittee met, pursuant to call, at 10 a.m., in room 3302, New Senate Office Building, Senator Henry M. Jackson (chairman of the subcommittee) presiding.

Present: Senators Jackson, Muskie, and Mundt.

Also present: Senator Case.

Staff members present: J. K. Mansfield, staff director; Robert W. Tufts, chief consultant; Dorothy Fosdick and Brewster C. Denny, professional staff members, and Roderick F. Kreger, minority counsel.

Senator JACKSON. The subcommittee will be in order.

This morning our subcommittee goes into its second day of public hearings on the subject of the budgetary process as a prime executive instrument for the planning and management of national security policy.

The subcommittee's study of this problem represents one part of a broader task. That broader task is to determine how our Government can best staff and organize itself to meet successfully the challenges of the cold war.

Yesterday we heard significant testimony from Mr. Charles J. Hitch, Assistant Secretary of Defense, and Comptroller.

This morning we are privileged to have as our witness Mr. Wilfred J. McNeil, president of Grace Line, Inc.

Mr. McNeil has combined a distinguished business career with notable contributions to the National Government. He served as special assistant to the Secretary of Defense from 1947 to 1949 and as Assistant Secretary of Defense and Comptroller of the Defense Department from 1949 to 1959, under both the Truman and Eisenhower administrations.

Perhaps more than anyone else, Mr. McNeil is entitled to be called "Mr. Pentagon."

I do not know how you want to take it; anyhow, it represents the tremendous effort you have put in the Department of Defense.

Mr. McNeil has served his country in the Navy in both World Wars. He was one of the very first Reserve officers to be made admiral. We feel that he is admirably qualified to discuss the role of the budgetary process in national security policymaking and execution.

I want to say, Mr. McNeil, that we on the committee are particularly grateful to you for the advice and counsel that you have given us and to the staff. We particularly appreciate the fact that you are a very busy man these days in your own business. It is most thoughtful of you to take the time and put forth the effort that you have to make your presentation here today.

We welcome you to the committee and we will be pleased to hear from you at this time.

**STATEMENT OF HON. WILFRED J. McNEIL, FORMER ASSISTANT
SECRETARY OF DEFENSE AND COMPTROLLER**

Mr. McNEIL. Mr. Chairman, members of the subcommittee, I feel complimented in being asked to appear before your committee. As to being called Mr. Pentagon, I will accept that because at least you smiled when you said it.

First, on the subject scheduled for the hearings this morning, let me say that seldom in the long history of congressional investigations and studies has any committee approached their task in a more non-partisan, thorough, and studious manner than is evidenced by the published reports from this committee. These reports, with their clear-cut comments and conclusions, should be studied by everyone having a real interest in improving the management of public affairs; they should be required reading for everyone.

You have expressed concern with the role of the budgetary process in national security policymaking and execution.

Among other things, you have asked whether the budgetary process now provides the President, his chief lieutenants, and Congress with the information needed for wise and prudent program choices.

You have questioned whether the budgetary process and the national security planning and programming are now properly related: whether the budget is now done on a long enough time scale to permit effective forward planning, and whether the budget process is now an effective coordinating and performance-auditing instrument for the President and his key civilian and military chiefs.

Generally speaking, I think that the committee may find the answers to be very much the same as the conclusions it has reached on other major facets of the organization for national security; namely, that the budgetary process has served rather well, but that there can be substantial further improvements in and a tightening up of the whole process.

We should never allow ourselves the luxury of becoming complacent or self-satisfied with the progress that is being made.

I think, however, it should be encouraging to find the real improvement that has been made in the last 14 years since passage of the National Security Act, in national security planning.

The situation today is a far cry from that which existed in 1947. Then it was surprising to find how little one service knew about the operational problems and equipment needs of the other.

There are still troublesome differences of opinion, but the fact that there are now in senior positions hundreds of graduates of the joint schools with experience serving in the joint commands and on joint planning boards, has produced, by comparison with 1947, startling

results in developing a greater understanding of interservice problems, and of all facets of defense requirements.

Fourteen years ago during a planning session a senior Army officer strongly objected to the maintenance by the Navy of the large reserve fleet, until it was explained at length, rather unconvincingly perhaps, that it represented the "mothball" fleet and not a manned force along the lines of the National Guard.

Similar examples of the then lack of understanding could be attributed to the Navy and the Air Force. I do not believe that would happen today, certainly not to the degree that it did at that time.

Questions such as those mentioned a moment ago seldom can be answered by a simple yes or no. For some time proposals for weapons systems or major programs have been projected for a long time ahead—and the present budget process does not place a restriction on the development of such long-term proposals.

After all, or part of, such a proposal is adopted, it may, of course, be carried out by providing, as necessary, annual increments in each succeeding budget assuming, of course, that the proposed project continues to have sufficient priority to warrant allocation of resources in future years.

Usually, considerable information has been available and has been presented generally in the detail and manner desired by those responsible for final recommendations or decisions. A major weakness, however, has been the fact that subsequently it has been impossible to achieve many of the time schedules and performance requirements outlined in the initial projections.

Whenever technical problems or manufacturing difficulties create delays, which frequently happen, the initial cost estimates become invalid. As a matter of fact, the increased costs resulting from such delays, together with the fact that the need for the project itself may lessen because it has been overtaken by later scientific or engineering developments, may invalidate the original decision.

This will continue to be true and it will be all the more true the more we try to press forward with putting into manufacture, developments at their early stage.

All would agree that the better and more understandable the information, the better can be the decision. The problem is not confined, however, to the comparison of major weapons systems—it also must encompass the degree of readiness, desired from such systems, the level of supply support, et cetera, because they all consume resources.

The package plan presented to your committee yesterday could be a worthwhile step. Any step in this direction which will provide those responsible for making decisions with information that they believe they need, should be taken.

The plan covers, however, only one facet of the budget process, and I will touch on this point later in this statement.

While the package plan idea was presented in an excellent manner, the substance of the new proposals are very much along the lines of developments discussed with Budget Director Stans and his staff, and the staff of the House Appropriations Committee in 1958 and 1959.

The idea then, as I believe it should be now, is to provide another way to evaluate major programs and to size up the problem.

In reading some of the material presenting the plan, however, I would be forced to conclude there is some lack of knowledge of what has been the general practice for years.

I might add, from the presentation I got the impression that Secretaries Lovett, Wilson, McElroy, Gates, and General Bradley, Admiral Radford and General Twining really have not been doing very much along these lines. I can assure you that is not true. They were in this business of looking ahead day in and day out, month in and month out.

Although I am sure that there are better and more formal ways to get comparisons of systems than has been true in the past, certainly the "new look" of 1953 was not decided in a budgetary vacuum, nor on the basis of a single year.

Certainly the successful B-52 program of some 500 or more aircraft, planned for execution over a number of years, was not undertaken without some knowledge of the long range budgetary considerations.

In the late forties and early fifties, the decision was made to limit shipbuilding because, at that time, the fleet was relatively new and because there had been but limited technical advances since the war. This decision was certainly made with the knowledge that in the late fifties and early sixties a substantial increase in the shipbuilding program would be required and could be justified as having high priority.

From a budgetary standpoint, I believe that every major program undertaken in the last decade has been so considered.

Surely there have been errors. Scientists and engineers in many instances were overly optimistic and they will be again. Manufacturers in many instances have not always been able to live up to their schedules of production, nor will they always do so in the future, particularly in attempting to produce newly designed weapons.

This does not mean that every effort should not be made to examine these things carefully, but we should not expect the impossible.

I might add that generally speaking, any errors in decisions as to weapons or quantities have received plenty of publicity, and I think that is helpful. An examination will show, however, that the percentage of "misfires" will probably be less than have occurred in many successful business institutions in the United States.

I might cite some examples to put in perspective what the U.S. Government has done compared to some of these outstanding companies, proportionately at least. A steel company building a large steel mill so far up a river as to be impossible to reach it by large seagoing ore vessels; a chemical company building a new plant for a new process, finding later that the process was not feasible; an automobile company expending millions to bring out a new automobile, but which when developed missed the market; a shipping line that embarked into a new area incurring substantial losses on the basis of projections of the chambers of commerce, and without fully taking into account what competing forms of transportation might do.

I can speak to the last example because it happened in our company.

Earlier in your hearings it was recognized that the American system of government provides no good alternative to reliance on the budget.

process as a means of coordinating and reviewing the activities of the departments and raising periodically for Presidential decision and review, their effectiveness in actual performance. Certainly the budget process is an integral part of the management process in any government department.

The budget problem within the Defense Department is to achieve the best possible balance among all our requirements. As a practical matter, this can be done only by bringing together in one place, and at one time, all the various pieces of the defense program and budget so that each piece can be judged in terms of the whole.

Obviously, in this process of achieving proper balance within the defense budget and between the defense function and other functions of the Government, as well as between revenues and expenditures, adjustments in the budget requests are unavoidable.

Unfortunately, sometimes these adjustments come at the very last minute and place a great deal of stress and strain on the budget machinery.

I might add that there is a saying around the Pentagon that while you try to make every effort to make decisions earlier, there is only one person in the United States who can force a decision, and that is the Government Printer.

No matter how precise the planning may have been; no matter how determined the management that budget planning would not encounter a last-minute rush, it is almost certain that something in this day and age will come along and upset it.

As an example, the press and radio are guessing that based upon U.S. reaction to the Berlin matter, the President may tonight announce some changes in defense plans not contemplated or decided upon only a month or two ago.

From a long-range viewpoint, we must have a total national strategy in which each element is in proper balance. Resources must be allocated on the basis and the allocation shifted in line with shifts in overall strategy.

Fortunately or unfortunately, the allocation cannot be entirely on a scientific basis. Allocations usually must be a matter of judgment. While we may see some differences in interpretation of certain aspects of the total problem from one administration to another, I believe you will find general agreement that the threat is multifaceted and of a long-term nature, and, that the strategy and its implementation must be geared to the long pull. This, in itself, helps determine the best approach to a solution and to the effort allocated to defense.

Furthermore, defense requirements cannot be viewed in isolation. The benefits of additional dollars spent for defense are weighed by any administration against the benefits of additional dollars spent for other governmental purposes, and against the additional burden placed on the taxpayer, or the additional debt which future generations would be required to bear.

It is not simply a matter of figuring requirements and adding up their costs. The defense program must be judged in context with the Government program as a whole, and in the light of other desirable objectives, particularly in the fiscal and economic areas. This is the crux of the problem of budget planning at the national level.

So while the Defense Department has a job to do, the amount of resources to be devoted to all Government functions and their allocation among those functions, is a matter of subjective judgment.

In the final analysis, it is the President, with the assistance of his chief advisers, who must initially decide what programs and activities are best for the country. The annual U.S. Government budget constitutes his recommendations to the Congress.

The test of the correctness of these judgments is in how well the needs of the country have been met and how efficiently the Government managers have used the resources placed at their disposal. Neither of these tests is subject to any immediate or precise standard or measurement.

This is an aspect of budgetary planning which often is not clearly understood. Many people, even though associated with the defense program for a long period of time, come to think of military requirements as finite quantities. This is a misconception. Virtually all military requirements stem from decisions on major force levels, and decisions on the levels of readiness of these forces.

The determination of the forces required for national security and their level of readiness at any particular time is a complicated and by no means exact process. Decision as to the course of research and development and weapons themselves, if rapid advances are to be made are, in part, a matter of judgment. There is a good deal of room for honest differences of judgment among equally competent persons.

As mentioned earlier, the package plan, as contemplated, seems to cover but one phase of the budgetary process, and is but one method of evaluating its contents. It seems to contemplate a very high degree of preciseness and ability to perceive successful weapons development and suitability.

Certainly past experience would indicate that is not true, although certainly it is all right as a goal to look as far ahead and as precisely as one can.

But in addition to evaluating the relative merit of different weapons systems and programs, there are times when those responsible for the making of decisions want the package grouped in other ways; for example, to indicate the portion of effort allocated to offense as compared to defense of the United States. At times an important element in making decisions has been a projection of the effort allocated to defense of the fighting forces themselves in forward areas. Other groupings which from time to time occupy the attention of responsible officials are a projection of the effort allocated to various areas of the world—in Europe, the Mediterranean, the Far East. In the formulation of national policy, there are times when the allocation by areas is considered just as important as comparison of weapons systems.

Another consideration which may be considered just as important is the proportion of the defense effort going into research, development, and testing, compared to the volume of procurement or the amount of hardware that is actually being procured for use by the fighting forces.

To summarize my views on this matter, budget decisions cannot be based upon any single method of approach. Justification and support for the various programs can be in any form deemed desirable by those having the responsibility to make decisions.

The budgetary process is vital, and of particular interest in your current study, but there are other important facets of financial management of the Defense Department and I would like to mention a couple of them, if I may.

The full use of the tools which have already been provided by Congress in title IV of the National Security Act will, in my opinion, produce more savings, or, saying it another way, more defense for the resources provided than the value of all the mistakes in judgment or errors concerning weapons which are made and which will probably continue to be made by the Department of Defense.

Everyone would agree that it is of vital importance that the hundred or so major programs of the Department receive every attention.

However, someone has to look at the myriad of minor programs and transactions which in the aggregate involve huge sums. The problem of the management and control of maintenance and operations, and the utilization of personnel is the hardest to get at and the most difficult to solve.

Here organizational and financial arrangements which "make human nature work for us, rather than against us," are most helpful. A broad area where such arrangements can be applicable is the greater use of working capital funds to finance the operation of commercial- and industrial-type activities in the Department of Defense.

Congress has authorized and urged the establishment of what have been called stock funds. In effect, there are "merchandising institutions" for the management and control of consumable-type inventories. Under such an arrangement, nothing can be withdrawn from inventory without a charge being made against current operating funds within levels established by Congress and the executive branch. Experience has shown that responsible commanders and managers immediately assume greater responsibility for the proper use of material when accountable in such a manner. "Free issues" of such material from stock are conducive to carelessness or waste. Accounting or statistical reports after the fact will never do the job. While real progress has been made in establishing such merchandising arrangements, and in their use, much more can be done.

Also, Congress provided in title IV of the National Security Act authority to organize commercial- or industrial-type activities carried on in the Department of Defense under conditions similar to that found in private enterprise. Such activities include shipyards, printing plants, aircraft, vehicle overhaul facilities, ordnance plants, et cetera.

Under such organizational and financing arrangements able managers, civilian or military, are given an opportunity to operate and produce results in almost the same manner as if they were in highly competitive private commercial and industrial concerns.

Increased cost consciousness is the result, both within the plant and with the customer who must "pay" when the work is completed, by accepting a charge to his current appropriation and allotment.

In certain military departments real advantage has been taken of this excellent legislation, but elsewhere a great deal remains to be done.

The use of working capital funds in itself greatly facilitates and simplifies budgeting on the basis of cost of resources consumed, since

budgeting and accounting for such working capital funds are performed on an accrual basis.

This enables the consumers to budget, fund, and account for the cost of goods and services consumed in the same amounts as their obligations.

Another facet of financial management that can contribute to a tighter defense operation is a strong, well-rounded audit program, suited to a decentralized pattern of operations and carried forward in each service. This should include an independent audit of procurement operations in the financial aspects of contracting, as well as in the verification and review of contract costs.

I would like to make a brief observation on the method of making appropriations. The principle of making appropriations for the Department of Defense based on full funding of either complete programs or usable increments of a program is sound and should be continued. Only in this way will there be either within the Department or in the Congress an opportunity to grasp and understand the magnitude of the programs under consideration. Congressional and departmental control can only be exercised in advance of undertaking the program and not later at the time the liability is to be liquidated and a check to be written.

I am emphasizing this point because in the past it has been proposed and in the future Congress may again be urged to make appropriations on the so-called expenditure basis.

Certainly the rate of expenditure is a vital consideration, but real control must be exercised before a project is undertaken or the obligation is created and not afterward.

I would urge that the Congress be wary of proposals for any change in this basic principle of making appropriations and I believe the experience of the Appropriations Committee will support this observation.

At this point I might add that the so-called package plan does not provide a suitable basis for an appropriation structure. I will repeat, it is one method of evaluating major weapons systems.

One more thought, your studies emphasize the importance of developing, attracting, and retaining qualified and experienced personnel.

I cannot emphasize it too much, and I would like to say this is particularly true in the budget field.

Throughout your earlier reports, there seems to be a real effort to find new and better ways in which to do things. However, these conclusions have been tempered and made practical by the down-to-earth approach toward basic organization concepts and clean-cut lines of authority.

You recognize the all important point usually overlooked in the quest for perfect solution and that is the organization and procedures must be flexible and geared to the probability of constant change.

As the first Secretary of Defense said—

there is no finality to the stream of history—no black and white decisions. The stream of history is always flowing and problems between nations never end.

Organizations and procedures must meet such situations. Thank you very much, Mr. Chairman.

Senator JACKSON. Mr. McNeil, we are grateful to you for a most thoughtful and a candid presentation of this very important problem. In your opening statement, you state:

While real progress has been made in establishing such merchandising arrangements and in their use, much more can be done.

I wonder if you can elaborate a little bit on that.

Mr. McNEIL. Yes. This, incidentally, was not my original idea, although I attempted to push it during the time I was there. It started in the Navy first about 1908, I believe, as one means of carrying a common inventory of consumable type supplies.

The Navy has done a pretty good job with it. I think they can go further, particularly in the field of aircraft spares and things of that nature.

The Army started in 1952 and 1953 and have done a very excellent job.

The Air Force has not been as enthused about it. I think it is conducive to real economy of operation without stifling or hindering any operation.

Senator JACKSON. What about the Navy?

Mr. McNEIL. The Navy started in 1908 and carried it forward and did a very excellent job with the idea over four or five decades. They expanded it somewhat to medical supplies and things of that nature in the last decade. I think they can still go further in such areas as aircraft spares.

Senator JACKSON. What in your judgment, Mr. McNeil, are the strengths and weaknesses of the program package approach to the budget?

Mr. McNEIL. Mr. Chairman, I think, as I tried to point out in the statement, it is all right as one way to walk around the "elephant" and to take a look at the other side. It is one way to evaluate the problem.

I don't think it is the basis for a satisfactory budget structure, that is, a way of making appropriations.

The grouping proposal is one way which might suit the present management and if it is, it should be used. If one takes a look at the detail, however, he finds that almost the entire Army, with the exception of Air Defense, is in one grouping.

Well, you can get that today from the present appropriation structure, without sorting out any programs except air defense missiles.

But I think if this serves a purpose to the present management and provides a better understanding of what they are doing, I certainly am in favor of it. But to me, it is just one more way to look at the problem and it is all right if treated as such.

Senator JACKSON. I know you referred to the arrangements you had with the Appropriations Committee back in 1958 and 1959. Did you give substantial consideration to this approach from the standpoint of budgeting?

Mr. McNEIL. Yes, but the grouping would be a little different.

As I said, if this particular grouping suits the present management, certainly there would be no objection. At that time, the thinking, and apparent need were a little more along the lines of what part of the defense effort might be, let us say, devoted to the Mediterranean.

I think a great deal of this package program idea must depend on allocations. That is you have to distribute certain overall or overhead costs.

As such, it can be a perfectly good system to help evaluate a program, but not precise enough to be the basis for a budget.

Next, if carried into the budget I believe it would not be conducive to economy of force. Navy destroyers are a good example of a type of force. I haven't checked this year but I would assume the number of destroyers in active service is probably around 225. I can assure you that if you broke that package up, broke that force up budgetwise, and allocated and assigned both for command, maintenance, and budget, separate groups of destroyers to the carrier force, to a possible convoy force, to an antisubmarine force, and to the various odd jobs they do, that you will find requirements above 225. You just cannot do it and get the best utilization.

By budgeting for the maintenance of 225 destroyers and then thinking flexibly about their use, you will assign them where, as, and if needed. You will find you don't need quite as many as you would if you divided them up in neat packages.

I think budgeting along any other line tends to compartmentalize the forces.

Senator JACKSON. What I gather from what you are saying in part is that maybe the package approach would be an additional way to look at requirements, but you would not want to rely on that approach exclusively. Is that a fair statement?

Mr. McNEIL. That is correct.

Senator JACKSON. And the more one can develop different approaches to these troublesome problems, the better off one may be as long as you do not rely exclusively on any one approach?

Mr. McNEIL. That is correct, sir.

I am sure probably it is more a matter of presentation, but the way the presentation was worded, as I read it last night, it seemed to indicate that this was the plan.

However, to my mind, it can be only part of the budgetary process.

As I tried to bring out in my statement, the budget of the Department of Defense is one problem, but it has to fit in the whole picture.

The President has quite a job of fitting in the Defense budget along with that of Agriculture, State, and all the other tasks this Government has to perform.

I want to repeat: I think it is all right, but it is just one part of the budget problem. I think you would have to think of the budget as a whole.

Senator JACKSON. What would be the organizational implications of the package approach?

Mr. McNEIL. If carried into the appropriations structure, I think it would not be good for the Department of Defense.

Again as a method of statistically grouping these programs for evaluation, OK.

Senator JACKSON. My questioning on this point does not necessarily indicate my point of view, but I am wondering if you use the program package or functional approach for purposes of budgeting, is this not apt to lead logically to reorganizing your command structure in a corresponding way?

Mr. McNEIL. Carried through to the budget, it would affect the command structure sooner or later because sooner or later management or command channels follow the money.

Senator JACKSON. I have a broad, general question, Mr. McNeil.

At the time you left the Pentagon, what do you think were the greatest weaknesses insofar as the Defense budgetary process is concerned, and the unresolved problems, shall we say?

As you properly pointed out, these things go on forever, and challenges are always with you, but what stand out in your mind as the most serious unresolved problems insofar as the Defense budgetary process is concerned?

Mr. McNEIL. The question is a difficult one to answer for this reason: I felt one of the biggest problems ever since the passage of the National Security Act 14 years ago, has been the problem of getting a better understanding between the different services, an understanding of their requirements, their equipment, their needs. I thought it had to be an evolutionary process and it has been.

During the period between passage of the act and 60 days later when the act took effect, I recall talking to Secretary Forrestal about the matter. At that time he thought that if you could get substantial understanding between the services in from 10 to 20 years, it would be quite a marvelous accomplishment.

I believe that the progress has been even faster than might have been forecast in 1947. So it is hard to prescribe a solution except just to press forward constantly through the joint schools, the joint commands, the constant pressure to improve the combined planning.

Senator JACKSON. In that connection, don't you feel that the joint schools, the National War College, the Industrial War College, and all the other schools of a joint nature, have been particularly helpful.

Mr. McNEIL. They certainly have. I think they have been excellent because living together for a year, studying each others problems, has been conducive to mutual understanding.

In fact, when I was in the Pentagon I always was delighted if I could have the benefit of the services even for a short time, of the graduates of any of those schools or people who had served for a time in a joint command because they have a much broader outlook, have a much better understanding of the whole problem.

Senator JACKSON. I am glad to hear you say that. I have been impressed in visits I have made over the years to the National War College and Industrial War College, and the service colleges that they have done remarkable jobs in selecting and training top people. I believe they come away from the college with a broader attitude and they can see a lot more of the problems we face than they could before, and with more understanding.

Mr. McNEIL. I felt strongly enough about it to spend 4 or 5 days down at Fort McNair this past year and I certainly will do it again should I be invited, because I think anyone who contributes to that is performing a real service to the country.

I think that the problem that Mr. Hitch is attempting to get at in his package plan is something that we can go much further in.

In my remarks today I do not mean to write off as a worthwhile effort, the improvement and evaluation of programs, improvement

and method of trying to find out which weapon or system will do the job best and the cheapest.

But that, again, is an effort that is a continuing one. Certainly the problem was recognized when the Weapons System Evaluation Group was established in 1948, when the Institute of Defense Analyses and its predecessor, was established. Those were all efforts to get at this same problem.

There will be no quick and easy solution. The more this country presses toward getting new weapons quickly, the more mistakes we will make, and that is perfectly all right. I think it is the thing to do.

We cannot expect to start development of ideas and have every one work out. So we ought to expect that a certain amount of the things that we do will not work out as originally planned, and if so I would not be too critical. I would only be critical if, when they are not going right, we haven't the courage to step up and stop it. That is the real thing that we should have been criticized for when I was there, and I would think the same way in the future.

Senator JACKSON. I have a lot more questions, but I am going to turn to my colleagues. Senator MUSKIE.

Senator MUSKIE. Thank you, Mr. Chairman.

I appreciate the opportunity of listening to your comments on this very important problem, Mr. McNeil. I think we are all agreed that it is much easier to say generally what we are trying to do, than it is to reach agreement as to how it ought to be done.

There are two very broad objectives, I am sure, on which we could agree. First, particularly in this field of defense, we want to do what is essential to our country's security but, secondly, we recognize we must stay within certain practical limits as imposed by limitations on our resources and by political realities.

In this connection, I would like to ask a few questions about your evaluation of the importance of budget ceilings. I hesitate to even use that phrase, because it has developed a political connotation which I do not give it in asking this question. But since our resources are limited and since there are practical political limitations on what we do with them, and since there are other claims upon them, at some point in the process we have got to set a dollar limit on what we spend for defense.

The phrase "budget ceiling" has developed a connotation that those dollar limits are set before we decide what we need to do.

So I would like to get your evaluation of the importance of the budget ceilings and the point at which the dollar limit has to be imposed or ought to be imposed.

Mr. McNEIL. First, the word "ceiling" used in connection with budget, to me, is not a nasty word at all. It is one way to get a job done. It is a method that has been used by cities, States, and the Federal Government off and on for years, and will in the future.

I would attribute no political significance to the word, although I know how it is used sometimes, because it was used in recent years by both President Truman and President Eisenhower as a way to get something done.

It would be very nice if budgets could be prepared without a ceiling but there are times when it is the best method.

The adding machine lists of demands are probably going to be more than can be fitted into the resources available. Budget ceilings can, of course, be restrictive and they can stifle or prevent the bringing up of ideas and plans which should be considered.

When a ceiling is used to prevent or which has the result of preventing ideas or plans from being presented for consideration, I think it is the wrong use of the ceiling idea.

Sometimes, to get around objections of that kind in the Department of Defense, they have used A, B, and C budget ceilings, three different levels, in order to get a perspective and then said "Above that, if you can't get it all in A, B, or C, you state it separately."

The budget ceiling idea or plan is used more or less by everybody at some stage in the budget process, within a bureau or within a command, even if it were not done in departmental headquarters, as one way to force, at lower levels, consideration of a myriad of minor things that in the aggregate total huge sums.

If it accomplishes that purpose, I would say it is worthwhile because no one at the top can ever really control the millions of things that are going on in a huge department with activities around the world unless you do it with some kind of money limitation at some stage of the game.

I want to repeat that if the budget ceiling idea is used, and used properly, I think it can help a great deal so long as it does not bury or avoid bringing up for consideration vital things that should be considered in the interest of defense as a whole.

Now, a ceiling can be established to get that done and done in a way to carry out long-range policy but it is a controversial point and there are heated discussions on it on many occasions.

I recall General Marshall outlined in the fall of 1950 his idea of what the buildup should be at the time of Korea. That was in December, shortly after the Communists came into North Korea. At that time, he proposed that there be a rather rapid buildup to a reasonable plateau and that the plateau be one which will be carried on for years so long as there were clouds in the sky and the country apparently in trouble.

Certainly President Truman subscribed to that viewpoint at the time.

I think President Eisenhower, as I recall it was April 1953, reaffirmed that same general policy in a national broadcast after 2 or 3 months of study.

So for a long time, about 11 or 12 years, this country has had what to me has been a basic and underlying military policy. That is, we would get strong and stay reasonably strong.

Now, that might be achieved at a \$40 billion level. I am just using that figure as an example. Whether it was \$38 or \$42 billion I would still say that policy was being carried out.

If, at the same stage of budget ceiling, the President and his advisors thought that within that figure the general desired level of defense could be achieved, the establishment of a budget ceiling at \$40 billion would not be capricious. It would be one way to force consideration of minor elements and to get all the high priority items in that you could.

I know of no time in the last 10 years that if a person felt the program within the first \$40 billion was pretty solid and that something additional ought to be done that you could not get it in.

Senator JACKSON. Will the Senator yield on that point.

Last year General Taylor testified before our committee and I quote this particular paragraph from his statement on page 769. He said this:

In the absence of agreement by the military chiefs, economic and budgetary factors have come to play an overriding part in determining military posture. Each year the services receive rigid budget guidelines which control the growth, direction, and evolution of the Armed Forces. These guidelines are often set with little knowledge of their strategic implications.

I emphasize at the outset of his statement he points out "in the absence of agreement by the military chiefs," he says, "economic and budgetary factors have come to play an overriding part."

If you will forgive me, I thought this was pertinent to the question that the Senator from Maine has raised. Would you care to comment on that?

Mr. McNEIL. I think it is pertinent, sir. I would like to answer that question nicely, but I may have some difficulty.

Senator JACKSON. I hope my tone was all right.

Mr. McNEIL. The question was very nicely stated. My recollection is not quite his.

Senator MUSKIE. I think you have achieved your objective.

Mr. McNEIL. I would like to carry it one step further, if I may, sir.

It was very carefully arranged, because of such statements, that General Taylor would have the opportunity to present his case not only within the councils of the Joint Chiefs and in the councils of the Department of Defense. Also arranged was a schedule of presentations or discussions so that he could present anything he chose along with the Secretary of the Army, to the National Security Council and to the President.

The President overruled him on several occasions after such differing views had been presented. I wouldn't know what to do about it because I thought the President was the "boss" at the time.

Senator MUSKIE. I think you have made your position quite clear on the question of budget ceilings. I think your statement was a reasonable one.

I would like to follow that up with two or three specific questions to nail it down. I take it you do not agree that it would be wise to impose this kind of budget ceiling; that is, to have the Budget Bureau say to the Department of Defense, "Now, you have X billion dollars to spend for defense next year. Now, you come back and tell us how much defense we can buy for that amount of money."

This is the wrong use of the budget ceiling in the light of what you said.

Mr. McNEIL. The Bureau of the Budget, in some of their memoranda and initial budget letters, will convey that tone and such letters read very much along that line. Many times the Department has interpreted them exactly that way.

I look at it a bit differently, sir, in this way: Back in 1949, 1950, and 1951, it had been decided that we would increase the level of defense and carry it on at a rather high plateau looking ahead for some period of time and to avoid the old system of peaks and valleys.

The projections of what it might cost to get this reasonably high level of defense in the early part of the 1950's, 1952, 1953, and 1954 was in the neighborhood of \$35 billion, or a little more.

Therefore, as a result, the Bureau of the Budget the following year said, "We would like to see what an initial plan for the coming year looked like at the \$35-, \$37-, or \$38-billion level." I would not consider that the Bureau of the Budget was setting that figure.

It was a figure that was more or less agreed upon in the councils of the Government months before, as a general approach.

Now, the \$40-billion initial planning level came along in the late 1950's, after there had probably been price changes of 10 percent, so that really the initial ceilings were based on, let us say, a stable dollar and were still in the ball park, so far as overall planning was concerned.

As I mentioned a minute ago, looking ahead and making plans, whether initially it was 5 percent more or 5 percent less, does not mean that the final decision cannot take into account any important program that cannot be accommodated within the initial planning or initial target ceiling.

I know of no budget in recent years that came to the Congress in the precise amount established as the initial budget ceiling.

A couple of times less; several times considerably more.

Senator MUSKIE. I have had some budget experience as Governor of my State. I found it useful to adopt this procedure in the budget process:

I asked each department at the beginning of the budget process each year to provide three pieces of information: First, what would it cost you to continue services you are now currently performing; second, if that figure is higher than it is for the current year, why is it higher; third, what in addition do you think your department ought to be doing, or what services you think your department ought to be discontinuing.

The purpose of these questions was, first of all, to accumulate the information as to what current services would cost the taxpayers, but, in addition, to stimulate creative thinking relative to new programs.

Is this kind of question implicit, or should it be implicit, in the Budget Bureau's approach to the Department of Defense?

Mr. McNEIL. In my work with the Department of Defense budget, I construed a ceiling approach, with trying to ascertain what would you do with a little less, and what you are not doing that should be added?

I interpret the ceiling approach very much as you described the way you used it.

Senator MUSKIE. In other words, the ceiling should not be used as a means of discouraging creative thinking, or advances into alternative programs or weapons systems?

Mr. McNEIL. I did not interpret it that way, nor do I think did Mr. Lovett, and he had to operate under ceilings.

I don't think General Marshall did, and he operated under ceilings.

I don't think Mr. Gates considered it in that way.

But I want to add that I think the staff of the Bureau of the Budget, by the very nature of their operation, does think—as Ger-

trude Stein might have said—that the budget ceiling is a budget ceiling is a budget ceiling.

It would be perfectly natural for people in that line of work, and not being exposed hour by hour to operating people, to get that impression.

But I do believe that the Pentagon, the Army, Navy, Air Force, and the Marines, are pretty good at this business of presenting their views. I don't think that any ceiling they really didn't believe in would not be discussed a bit in private, if not in public.

Senator MUSKIE. In other words, you would agree that the budget ceiling ought to be high enough to enable us to do what is essential for the national security within time limits that are realistic in terms of the challenge that is being posed?

Mr. McNEIL. Yes, I would.

The corollary to that is a budget ceiling can be established at an approximate level in a knowledgable way.

Senator MUSKIE. I would like now, if I may, to ask just a few more questions and then I will suspend in order that my colleagues may ask questions.

I was concerned yesterday, as Mr. Hitch presented this package program, I was concerned as to whether or not this kind of programming or budget planning—I am not sure you can call it budget planning at this point—as to whether or not it could fit within the present organizational structure of the Defense Department.

Can you do this kind of mission budgeting or program budgeting or function budgeting within the limitations imposed by the existence of three services and their rigid organizational lines?

Mr. McNEIL. Personally, I would not like to see the budgeting done and appropriations made on the basis of the grouping outlined in the package plan.

However, if the proposal helps the present management to grasp the problem a little better, I think it is worthwhile. I think it might be helpful to know that x percent of our effort is going into the strategic retaliatory force, now to be called the central war offensive force. Such an evaluation can be accomplished within the present organizational structure.

I don't know that that in itself would change the number of B-52's kept in service, or not, because I think it is agreed that it is a very essential force that must be maintained and at a very powerful level.

I think continental defense has been a subject where the Senate was way ahead of the Pentagon in looking ahead and demanding better planning for continental defense in the last 4 or 5 years.

I think the Congress has forced the consideration of a little less enthusiastic use of some types of weapons that probably had outgrown their usefulness.

But if we find that 10 percent of our effort is going to continental defense, so what? Unless we at the same time find that we are not doing a decent job and then we might say, "Well, I wonder if we are not putting a little too much in the offensive strategic force or some other type of force."

If it will encourage that kind of provocative inquiry, it can be very helpful, I think.

As I tried to say in my statement, it was important to me—although I didn't make the decisions or "run the show"—to force consideration

of whether we were getting to the point that we were spending so much in research, development, test and evaluation that we were not buying enough "hardware" for the troops. Certainly you ought to buy something to fight with. You should not neglect research, but it seemed to me proper and necessary that there be a grouping which pointed up the issue and forced the senior military and civilian people of Defense—I am using the word "forced" loosely, perhaps—to consider the best distribution of effort between research and hardware.

I think it is a useful exercise. That is why I would not be critical of anything that would help the people grasp the problem better than in the past.

Senator MUSKIE. What you are saying is that this program package approaches a useful way of looking at the budget, but it really cannot be a new form of budget; is that correct?

Mr. McNEIL. That is correct.

Senator MUSKIE. I will suspend for the time being, Mr. Chairman.

Senator JACKSON. Senator Mundt.

Senator MUNDT. Thank you, Mr. Chairman.

I was pleased to read in your statement that you emphasized the importance of budget planning under the geographic approach. Of course, we are living in that era right now. Tonight we will undoubtedly hear a message from the President requesting changes in the budget based on conditions evolved out of the geographical area.

I wish you would dilate on that part of your statement a little further. You touched on it in the paper you presented, but it seems to me in terms of budget handling it also must play a rather important part.

Mr. McNEIL. I think it does play an important part. Again without reference to either administration, it is important even for nondefense matters, such as spending abroad or the gold outlook.

It emphasizes, I think, Senator, the importance of looking at this package from a number of different angles in order to grasp it.

With respect to weapons systems, the relationship between research and hardware, the effort, if we are going to maintain our position in the Far East, the 5th Fleet, 7th Fleet, in Korea or Germany, without an understanding of the resources that go into each effort, I don't believe the decisions will be as fairly considered, or as well done, as if there is a reasonable grasp of the problem.

I would like to mention in that connection, if I may, that so often there is an effort to be too precise and to think that such things can be worked out to the last dollar.

I have mentioned on several occasions, I think, that the senior people could probably decide whether the 6th Fleet in the Mediterranean was worthwhile if they knew one-sixth of the naval effort was put in the Mediterranean.

Whether it was precisely 15 percent or 17 percent. It wouldn't affect the decision, but an approximation, say, about a sixth, is very important, I think.

I think it is important to know that perhaps \$3 billion of our effort is going to the mutual defense of the continent.

But whether it is exactly \$3 billion, or \$3.1 billion, or \$2.9 billion Senator, would not affect the important decision to participate at about the present level in Europe.

An effort to be too accurate or too precise, can get the real objective lost in the details.

Senator MUNDT. In other words, what I think you are saying is that in the final analysis this whole business of defense gets down to the problem of what does it take to protect a given area of the world likely to be in trouble, whether it is continental defense, or whether it is one of our far-flung areas of interest.

This is the problem that must be met and it is impossible to predict with complete accuracy in December of any year what that problem is going to be in December of the following year.

Mr. McNEIL. That is correct, sir. That gets back to one point that I was touching on in response to another question a little earlier, and that is, if we budget by certain weapons system type compartments it tends to freeze the use of the forces thus supported.

Senator MUNDT. Precisely.

Mr. McNEIL. I would far rather support the forces at the approximate level we thought would do the job and then leave flexible the use of such forces where, as, and if, necessary.

But it is helpful to know in genuine terms at least, what part of your effort is being used in different ways and in different parts of the world.

Senator MUNDT. My next question is on this view of the problem of budgetary ceiling. I speak as one who has never been especially disturbed by the fact that ceilings are established because it seems to me in this era of necessarily colossal spending there is no substitute, no realistic substitute, for establishing some kind of ceiling.

Now, I may have a different concept of what the term ceiling means than some of the people who write articles about it, and indicate that our defense at times goes to the dogs because it is being held down artificially by a budgetary ceiling.

In a great many years on the Appropriations Committee, I can never recall the time when a service has been denied some essential piece of hardware because the ceiling has been set up sometime down at the other end of the avenue.

There are lots of ways of penetrating that ceiling. Sometimes the Defense Establishment can produce a change in the budgetary ceiling.

But if it gets down to the last ditch fight, the advocates of a specific project—whether it is in research or in the Air Force or in the Navy—are sitting in front of the Appropriations Committee, they do not lose all the valor that they are expected to show on the battlefield. If they are asked, "All right, this is what the budget asked, but as the man in charge, what do you believe you ought to have?" I have never noticed any great reticence for them to tell what they think they ought to have.

The Appropriations Committee very frequently goes over the budget in order to provide that.

For many years I was in the homebuilding business. Simply because we always had a cost target in building a house, we never left the roof off it if it cost another thousand dollars.

In your long years, can you think of any time when a fixed ceiling stopped the Defense Establishment from evolving in the way it should after it had finally gone through the long processes of budget hearings, clear through the final appropriation action and passage of the

bills by the Congress? In addition we frequently considered supplemental requests when there has been some short changing.

Mr. McNEIL. Generally speaking, certainly since 1949 or 1950, I can think of no time that a budget ceiling has prevented the presentation and full discussion of any item that senior people in Defense thought was really necessary.

Before you came in, Senator, I mentioned that I didn't think that "ceiling" used in connection with budget, was a particularly nasty word.

I have often prepared budgets without a ceiling when it could be done. It is a painful process. It takes a bit longer. You can with difficulty come out with about the same answers.

I recall in 1950 when I think preparation of the budget without a ceiling was a perfectly proper way to do it. In fact, I think using the ceiling approach would have been wrong. That was the first year just after the Korean hostilities began and it was decided to build up rather rapidly to a reasonable plateau. There was no long background in the United States, with 150 years of peak and valley experience as to what carrying on a high level of defense year in and year out for a long period would cost, or what was involved.

I think a very good start was made in listing everything that anyone could think they needed. It was possible then to go through and whittle it down, knowing full well, however, at that time that if you overbought certain engines or trucks, it could be balanced out the following year.

That method was used for a year or two and then sufficient experience had been gained—and this was without regard to which administration was in office—to know that the approximate plateau that the Government as a whole desired to have in the form of defense would cost in the neighborhood of \$35 to \$40 billion.

Therefore, to do initial planning the following year at that level seemed to be a good way to do it.

I think it was. The spending for defense is made up of millions of items all over the world.

Senior people and the President just cannot control, probably said facetiously, how often they mow the grass on an army or air base, but in cost items such as the maintenance of establishments, the maintenance and operation of equipment, ceilings can do a great deal to cause people to think carefully early in the game and not plan on expensive programs that are really not too important, not really vital to defense.

Senator MUNDT. In other words, the overall ceiling breaks down to a whole series of little ceilings for special operations?

Mr. McNEIL. That is right.

Senator MUNDT. So that each group that is charged with a ceiling has to make a determination as to which seven of eight items they prefer to have.

If there were no ceiling, they would say, "Let us take eight and put in a ninth." If there were a ceiling they would say, "Let us select the seven that have priority status."

It seems to me it would serve a function in that area. If you asked everyone in every phase of Government—especially in Defense—where the ramifications are so great, only the question, "How much do you want?" it would be a pretty hard thing to control and it is a pretty

hard thing to put together because each fellow in the defense business naturally and rightfully believes his particular contribution is going to win a war. He is responsible for fulfilling his mission and certainly he wants to have as big a reserve of hardware and research and manpower behind his particular effort as possible so that if something goes wrong, nobody can point the finger at him.

So I would think in time of peace it is almost essential to have some kind of budgetary ceiling where we can break down into little ceilings in order to get orderly spending and coordination of defenses.

Mr. McNEIL. I might say, Senator, that I think this committee would be rather encouraged to see how well most organizational units within the Pentagon developed their plans under the ceiling approach. Some years ago, in fact, it happened regularly, that some of the easy to get, least important, items would stay in the ceiling and the "horror" items or the important things would not be covered by the ceiling budget.

But I think the work has been done pretty well in the military departments for the last few years and that they are really trying to get their important items in the list first.

I can recall a time after the war when this was not necessarily true. You probably have experienced that, too.

Senator MUNDT. Yes. Traditionalism, of course, prevails under certain circumstances.

Let me comment finally because the Senate is in session and I do not want to detain us, I think it should be put in the record that it is not only the Department of Defense that violates the ceiling concept.

Congress frequently does that, itself—I think quite properly at times. I think in terms of the National Guard, which has ingratiated itself to the Members of Congress somewhat more dramatically than it has to some people in the Pentagon. We have directly decided in our good judgment to put that above the level of the budgetary ceiling set by the people in the Pentagon. I think it is good.

I have made a motion, myself, a number of times, in the Appropriations Committee, but, good or bad, this indicates that a ceiling does not necessarily cripple defense.

If we interpret the ceiling as a cost target, it is not an inflexible thing. It is not impenetrable, but to me it is a guideline ceiling. It is essential if we are going to maintain any financial responsibility in conjunction with the kind of Defense Establishment that we all know we need at a time like this.

I can think of no substitute for it. If there is one, I would like to have you mention it.

Mr. McNEIL. I think the way the ceilings have been operating in recent years, the interpretation has been along the line of your last comment, is all right.

A rigid ceiling established by the Budget Bureau in isolation would be wrong. However, you will probably hear this is the way ceilings have been established. I understand Mr. Stans is scheduled to appear before your committee next week. I did not attend all National Security Council meetings, but frequently was asked to do so, particularly when some of these subjects were under discussion. Mr. Stans was invariably there and sometimes very forcefully and ably presented his position, but many times the final decisions were not along the line of his recommendations.

Again I think he accepted it in the right spirit because he had a certain job to do; others had a different objective and it was the President's duty to make a decision and he did.

A ceiling transmitted to a department and later considered under those conditions is entirely different than the practice that used to exist in the Federal Government when the Bureau of the Budget, as I understand it, issued ceiling letters without first there being a full discussion in the senior councils of the Government or without there having been in existence the basic defense planning philosophy that we are going to maintain indefinitely defense at a high plateau and no longer have the feast and famine, peak and valley type of Defense Establishment.

Once you have that, then a ceiling can be established for tentative planning purposes, initial planning purposes, without harm particularly when, as you say, the people have not been too bashful about expressing themselves both within the councils or before the Congress, if they really thought there was something left out.

Senator MUNDT. Let me just add that, of course, the Bureau of the Budget, like all other departments of government, has grown in size and gained some experience and changed process of operation considerably in the past two decades.

Undoubtedly it does a much better job of "guestimating" now than it did formerly. Certainly as a Member of the Congress who has been a strong and sometimes stern defender of the coordinated functions of Congress, my concept of the ceiling not only of the Defense Establishment, but throughout the Government, is that, after all, it is not a rigid ceiling. It does not change the constitutional provisions. The power of the purse strings remains in the Congress. So, it remains a guideline; a useful one.

Time after time in all areas of government activity Congress looks at the ceiling, looks at the budget, and decides for itself what it thinks should be appropriated for agriculture, for health, for education, or for something else.

I think that is a perfectly proper procedure to maintain also in this area of defense.

Mr. McNEIL. In connection with the preparation of the budget and the relationship of Defense to the Bureau of the Budget, I might mention something that might be of interest to this committee. That is, that in 1950, at the time Mr. Webb and Mr. Pace were Budget Directors, a practice was established which I think has been excellent.

The Bureau of the Budget was, in effect, welcomed into the Pentagon any hour of the morning, noon, or night. They did not have to ask. This invitation was extended to the military estimates group of the Bureau of the Budget.

During the period of the more intensive budget review they, in effect, reported to the Pentagon in the morning and in the evening they could go back and report to the Bureau of the Budget, with the idea that there was nothing that they were not privileged to know.

I think it served a real purpose in improving the knowledge of the Bureau and in proving the necessity for doing certain things.

I think they had a better appreciation of what was necessary.

I assume that this procedure is still being carried on. I know for 10 years it worked. While it was difficult to have them working with the staffs in the Pentagon during the day and then going back in the

evening to tell the Director of the Bureau of the Budget the "foolish" things that were being proposed, we thought it was healthy from the standpoint of the best interest of the U.S. Government to do it that way.

I think over the years there has developed, as Senator Mundt just mentioned, a greater knowledge in the Bureau of the Budget of the problems of defense, so it has become less and less an uninformed and strictly a dollar ceiling approach.

Senator MUNDT. I think that is correct.

That is all, Mr. Chairman.

Senator JACKSON. Thank you, Senator Mundt. We are very pleased to have with us this morning Senator Case. While the Senator is not a member of this subcommittee I invited him to attend the sessions.

Senator Case is a member of the Senate Armed Services Committee and he has been very active in all of these matters relating to national defense.

We are glad to have you, Senator Case, and you may proceed in your own way.

Senator CASE. Thank you very much, Mr. Chairman. I did appreciate the invitation to come, first because I have in my own heart and soul applauded the work which you and this subcommittee have been doing in attempting to study the problem of budgeting in relation to the meeting of our total requirements and particularly the national defense requirements.

I was also prompted to attend this particular session because of my own personal high respect for the work Mr. McNeil did while he was Comptroller in the Department of Defense.

I used to deal with military appropriations in the House of Representatives, and I have some familiarity with the hit or miss methods that were used at one time and some recognition of the work that was done by Mr. McNeil when he came in in 1947.

I noted with interest that Mr. Hitch yesterday recounted some of the reforms that were achieved in the simplification and the consolidation of different accounts and said:

For these notable achievements we have to thank my distinguished predecessor, Mr. W. J. McNeil, the first Comptroller of the Department of Defense who is scheduled to testify before this committee.

Then Mr. Hitch said he was the principal architect of these numerous reforms. That is a very well deserved tribute and explains in part my own feeling why I am particularly glad for the invitation to be here today.

I want to comment briefly on the general theme that has been discussed here and then I have a specific question to ask.

I share the respect which my colleague, Senator Mundt, has expressed with regard to the value of ceilings.

I have always thought that ceilings forced consideration of priorities and essentialities and in that sense they are constructive and creative.

One of the best statements for a defense budget that I ever heard made was made by General Marshall when he was Chief of Staff. He said that the problem that he had to deal with within the Military Establishment was the problem of "localitis," that every military com-

mander thought that the war was going to be won or lost in his particular theater, and his problem was in deploying his men and his materials, his equipment and his resources to get them properly deployed for the best overall result.

I think that is identical with the problem that Mr. McNeil here this morning stated when he said the budget problem within the Defense Department is to achieve the best possible balance among all our requirements.

It is essentially the military problem of deployment of men, materials, equipment. Applied to dollars, it is the best deployment of our dollars.

Then I also like what you said this morning, Mr. McNeil, that defense requirements themselves cannot be viewed in isolation, that within the Defense Department the different requests have to be viewed in relation to the total defense effort.

The defense program must be judged in context with the Government program as a whole, and in the light of other desirable objectives, particularly in the fiscal and economic area.

Now, the question I have relates itself to what you said at the closing part of your statement where you made an observation on the method of making appropriations. You said:

The principle of making appropriations for the Department of Defense based on full funding of either complete programs or usable increments of a program, is sound and should be continued.

Immediately the Congress is being confronted with the problem of making an authorization for the foreign aid program, which proposes both authorization and appropriation in the same bill, through the way of borrowing techniques applied to the Treasury or through the use of the demand authority upon the Treasury which would in effect draw funds from the Treasury without appropriations for a long-time program.

You advocate here in your statement, Mr. McNeil, the funding of a program in its entirety. You said:

The principle of making appropriations for the Department of Defense based on full funding of either complete programs or useful increments of a program is sound and should be continued.

The question I should like to ask you is whether or not you could make any suggestion for dealing with the foreign aid program. Do you feel that we should fund that in its entirety, or should we provide in some way for annual review so that the progress of the program and the fiscal position of the country could be taken into consideration each year?

MR. MCNEIL. With reference first to the method of appropriation in defense, there have been in recent years proposals, some of which got into the form of bills and hearings, which would go back to a system of contract authority and of appropriating cash on the basis of the volume of checks to be written in the forthcoming year.

In other words, if a \$100 million ship or other project was to be started and if \$10 million was to be spent in the first year, that was all that would be appropriated with additional increments each year until completion the fifth or sixth year.

I think the Department itself, the executive branch, and the Congress could better grasp the problem if the full cost of the project

is presented and considered and the full appropriation is made, even though actual spending takes place over a period of time. That is the system that we are using today.

We have gotten away from the contract authority system of the Department of Defense, and I think it is one of the healthiest things that has been accomplished in that particular phase of the appropriations process.

But you have been urged, and I am sure you will be urged again, to go on the basis of appropriating for cash expenditures. It would be a mistake to do so even though the idea is supported by some of the accounting fraternity.

That is no way to "run a railroad" or control it. You can't control a program at the time a check is written. You have to do it before the project is started. You can only do it by control of obligations although that is considered old fashioned.

As to the appropriations for foreign aid, I probably can't speak with too intimate a knowledge of the economic side of foreign aid, but we did have a bit to do with the military portion of foreign aid for a good many years.

I don't see any reason for any unusual authority for foreign aid. I am talking about procedures for the foreign-aid program and not the amount. I am not familiar with what is in the program at this time, so I can't venture an opinion whether it is adequate or inadequate, but the method of appropriation I would think, perhaps being a bit old fashioned on the subject, should be a direct appropriation for whatever size program is approved.

Now, I grant that in the military aid program and in the economic assistance part of the foreign aid program, there may be sizable portions in which the United States does not have a firm idea of exactly what should be done for the period ahead.

If so, I have found that the Congress in the past and the Department of Defense at least has gotten along pretty well; has provided funds that were not tied down too specifically, and changes could be made in a process called reprogramming.

In other words, there was some latitude in the use of funds if conditions should change.

Senator CASE. That device of reprogramming has been used in the Defense Department?

Mr. McNEIL. Yes, so either that device can be used within the framework of appropriating on a normal basis, or the provision of a certain amount of emergency type funds which are not justified or restricted in their use to any one particular project or area.

Senator CASE. It has been customary for each of the military services to have a little contingency or emergency fund that could be used for unforeseen problems.

Mr. McNEIL. The foreign aid appropriations have contained an emergency fund also. It has not been justified or restricted to particular projects of particular areas.

It would seem to me a better solution if the emergency fund has been inadequate to increase the amount but the basic principle of appropriation should not be changed.

Senator CASE. Thank you very much for inviting me here this morning.

Again I want to say that personally I appreciate the service that Mr. McNeil has rendered as Comptroller, during this period of time. He was one that believed it was not merely important to keep the store, but also to keep the score.

I do not know how the Government can be run unless there is someone to keep the score on obligations.

Senator JACKSON. I think we can all agree that the country owes a great debt to Mr. McNeil for his long service to the Government. He certainly served in a period of ups and downs and under most trying and difficult circumstances and we are fortunate that he was able to take time out from his busy schedule in business to come down here and to give of his time and effort in connection with the study that we are making.

Mr. McNeil, we have discussed budget ceilings quite a bit. I wonder if you would not agree in general that the important consideration is how one arrives at a budget ceiling. This is the question, the key factor, I am sure you would agree on that?

Mr. McNEIL. Yes, sir.

Senator JACKSON. In other words, we all have to realize that at some point you reach a ceiling on the amount that you are going to spend. As you say, if there is any emergency or any situation that needs to be specially presented then the door should always be open for that presentation.

If you allow each component within a service to come up with whatever they want, you can come to some rather astronomical results that will distort the whole effort.

Mr. Lovett, in his testimony before our committee, made the following statement which I thought was quite helpful; his statement was in response in this part of the record to the question that we had put and I will read it to you:

On the budgetary process, should State and Defense (and perhaps other agencies concerned with national security) participate fully in the initial establishment of budgetary guidelines for national security programs?

His answer:

I believe they should since a sound budget can only be developed if both State and Defense—the latter in particular—go painfully through the steps of determining (a) what is necessary (and not merely desirable) for national security; and (b) whether it is feasible from the point of view of national resources and production machinery; and (c) whether it is socially or politically acceptable to the people.

Then he concludes with this last paragraph in response to the same question:

An added reason lies in the importance of having the budgetary goal determined from the outset by a great concern for a system of priority of national need and not having them too greatly influenced by the officials of the Bureau of the Budget itself.

Do you think this is a fair statement?

Mr. McNEIL. I think it is a very fair statement.

Incidentally, he was one of my teachers.

Senator JACKSON. He has been one of ours, too, in the course of our study. Mr. Lovett is entitled to be called "Mr. National Security."

I gather what Mr. Lovett feels is that spokesmen for the principal elements that go into national security should have their say at an early stage and then the matter should be put to the President for

decision. It is at this point that the ceiling occurs. As I understand Mr. Lovett's view, it is that the bureau itself should not too greatly influence the ultimate substantive decision.

Mr. McNEIL. They certainly should not do it in isolation. Some years ago, I think they did in large part. I think it has been less true in recent years.

That may be a point you would like to bring up with Mr. Stans because he was a very worthy advocate of his position, but I will have to say that Mr. Stans did not go off and do it all alone. He expressed his views in the councils of State, to Defense, before the National Security Council and the President. Sometimes people didn't like the answers, but the mechanism, I thought, was proper.

Senator JACKSON. It seems to me that the vital thing is that we make sure that the departments which do and should play a role in national security have their day in court, so to speak, so that the President can have presented to him the hard and tough alternatives and then make the decision. You would agree with that?

Mr. McNEIL. Yes, sir.

Senator JACKSON. When you reach a budget ceiling in that manner, it is a sensible ceiling. But if ceilings are arbitrarily reached without proper consideration of the basic elements that go into national security, then we could say that we are getting into the arbitrary and capricious area.

I am asking this hypothetically and without reference to any particular budgets.

Mr. McNEIL. I agree with you. I feel very strongly that is the right way to do it. I felt strongly enough about it that I didn't have to urge, all I had to do was bring up the subject, that once we had to come to a certain conclusion within the Department of Defense, the matter was presented to the President, that if there were any items that had been the subject of serious discussion in the Pentagon that had not been included, that the Secretaries of the Army, Navy, or Air Force and the Chiefs of Staff or Chief of Naval Operations, should not rely on others to present their story, but they should come to the Cabinet room and present their story so as to be sure that it would be presented adequately and not be buried.

I might say, just in reference to a question asked earlier, that at the time of the statement by General Taylor the arrangement was made that each Chief would present his story separately to the NSC as to what he thought had not been included within the plan prepared in the Department of Defense. I think that was a proper procedure. I think it should be done regularly.

Senator JACKSON. I just have a few more questions.

Earlier I mentioned General Taylor's comment regarding the functional budget. You recall he did testify before our subcommittee last year and among other things he discussed the budgetary process at some length. The burden of his criticism was, and I quote:

* * * we do not know what kind and how much defense we are buying with any specific budget.

This kind of budgeting makes it hard to determine what our military posture will be at any given time in the future.

My question in this connection is this: On the basis of your experience, do you think that the Secretary of Defense had the information he needed to make the decisions about the kind and quantities of forces we needed to achieve our national security goals?

Mr. McNEIL. In general, yes. But there, again, I don't think the information today is adequate and it will not be completely satisfactory to each new group in the future.

I think the quality of the information can be improved. By that I don't mean just money or statistical data. I am talking about the capability of weapons systems. Can the system that is being proposed and discussed—because we are always talking about something in the future—be built? Will it be successful?

Can it come into service within the time scale that is proposed? Because if it is not, decisions can be made which are not sound.

So I would say it is a problem we were struggling with for years. It has been improved; it should be improved still more.

Anything that can be done to improve it should be encouraged.

But the information has been quite good. Not good enough, it never will be, but it has been quite good.

I mentioned in my statement that whether we believed in retrospect that the so-called new look was the right thing to do, it certainly was not done in a vacuum. It was done with the idea that there would be a certain strategic force that would have the highest priority. So on down the line, and about what it would take to do it. It has been carried out pretty well.

Now, the force strengths contemplated in the new look have never been reached. They have always been above it. In other words, they were not reduced as rapidly as initially planned because the conditions did not turn out to be quite as favorable as might have been expected.

The B-52 weapons system in 1952, I think, was an excellent decision. That was approved by Mr. Lovett. I mean the decision made initially. The program was costed to completion. A little trouble was experienced forecasting when the plan might come into service and what it would replace—also to validate cost projections.

I recall that instance very clearly because of the strong difference of opinion of the program's cost. Mr. Lovett got some outside help from the aircraft industry to help validate some of the things that my own staff thought might not be correct.

The fact was that when the decision to proceed was made it was known to be three or four times as costly as the initial proponents proposed but this did not mean it was not adopted. The Department still went ahead with the B-52 although I repeat it was known that it would be far more costly than the initial proposal indicated.

Senator JACKSON. But in time you did get a more accurate picture of the ultimate cost.

Mr. McNEIL. Yes; and it was deemed a necessary item and we went ahead with pretty full knowledge of what was involved, the number of people it would take, the number of planes. I think General LeMay might well recall the 4 days that were spent in going over the target system and so forth, with Mr. Lovett, and a representative group of

advisers to determine the general magnitude of forces which were to be equipped with that kind of weapon.

I don't think that these things have ever been perfect; they can be improved, but as I mentioned in an aside from the prepared statement, Mr. Lovett and the people who followed him as Secretary of Defense, General Bradley and the people who followed him as chairman of the Joint Chiefs of Staff, have not been completely idle. They have been working on this problem.

Senator JACKSON. What you are saying in connection with General Taylor's statement is that there is room for improvement in helping the commanders to get a better picture of what we have and what we are trying to do.

Mr. McNEIL. That statement puzzles me, however. I have heard it made before. I have argued about it a bit.

Anybody in his position can read the force statement. Certainly he had information available to him, to the last item in inventory, as to every conceivable type and size of weapon we had. Hopefully he knew what the Army had. Certainly it was not too difficult to find out, in general terms, at least the deployment of the Navy and the deployment of the Air Force.

There is one qualification in his statement as I read it in Mr. Hitch's statement of yesterday. In a particular budget, you are supporting forces not for a particular year. You are supporting a level for a longer period of time. You are buying new equipment not for the entire Air Force, Army, or Navy in any one year. You are buying an inventory or an increment of some larger program.

It seems to me it does not take too much study to get a pretty full grasp of what is being done. However, if it can be done in a different way, you can understand it better. I certainly would not be against a statistical grouping that would do it.

This present package would not do General Taylor much good, I am afraid, because it puts the whole Army except the antiaircraft missiles and certain overhead in one group.

Mr. Hitch made it very difficult for me today, I might add. Senator Case mentioned that he had said some nice words about previous progress, so I don't like to be critical.

Senator JACKSON. To refer again to the so-called functional approach, let us take the development of the POLARIS missile system, involving the marriage of the POLARIS missile with the nuclear submarine.

I was interested in this program from the very outset, going back many, many years. I found that in trying to get the Navy to do something about it, I ran headlong into the competition within the Navy for requirements in connection with their day-to-day operational needs, whether it was antisubmarine warfare or limited war requirements; whatever it was.

I was told that this strategic system would just eat away and erode their limited funds.

The result was that POLARIS was not pushed hard until sputnik came along.

What I am leading up to is this: If there had been some different approach where POLARIS could be evaluated as a part of our stra-

tegic striking force, it seems to me it would have been given greater consideration because of its obvious capability in this area.

Would you care to comment on that? I relate this only as a personal experience and it seemed to me that this is an item that might well have been budgeted separate and apart from the Navy because they were looking at it—and I do not blame them for their position, from a purely Navy point of view—looking at it within the limited resources made available to them.

I asked Mr. Hitch about that yesterday, too, and I would like to ask you.

It seems to me there should be some better and broader way of evaluating such a system.

Mr. McNEIL. I am not a weapons expert, but I think you backed a good horse.

Senator JACKSON. Thank you. It was a good horse to start with.

Mr. McNEIL. I recall your urging it at the time and I thought it was right.

A few "political" considerations enter into that situation. I use the word "political" in a broad sense. The Navy had been criticized for years for trying to get into the strategic business and there was a little reluctance to expose themselves directly to what, I would say, would certainly be recognized as a strategic system.

I think that had just a bit to do with it.

Next, I think that occasionally important programs like that can be pulled out and handled separately. I had a similar problem with the Navy earlier. I thought there ought to have been at least a few prototypes of supply ships built for MSTs. However, nobody wanted to include it in the shipbuilding program for the Navy so we started having a separate appropriation.

Every once in a while you do run into that type of situation. Sometimes it is narrow thinking. But also the POLARIS program was rather a new venture for the Navy in the sense that it was a complete package program with a single mission and something rather new to them.

I had to appear before a Navy board on two or three occasions on this problem because there was quite a little discussion on how to organize to develop that system. I think the special organization that was set up under Admiral Raborn has done a magnificent job.

There are a limited number of programs that I think could be specially managed like that within the naval structure. I think it is healthy organization policy to keep the regular pattern of organization intact, but, if necessary, to organize a special task force to do a job of this kind. To select and bring in at one point, 30, 40, or 50 of the most capable people to do a particular important job, I think is excellent.

As a matter of fact, the Navy does it at sea as a matter of habit. There is no specific definition for a task force. It is made up specifically for whatever job they have to do. It might include four carriers, it might have one.

So I think if we, on the whole, maintain pretty much a standard organization day in and day out, in maintenance and operation and in procurement, you have a healthy situation. You can always put an urgent tag on one product that is going through the factory and

have it successful. However, if everything carries an urgent tag, nothing happens.

Senator JACKSON. My only concern was the means of identifying a very worthy project like POLARIS was not the best at the time. It happened that the program was developed in the midst of competing requirements within the Navy which I do believe had an effect that was not the most advantageous to the Department of Defense and our defense posture as a whole.

That is why I raised it. I appreciate having your comments on it.

Mr. McNEIL. That is why I think that if this package type of proposal will help to bring it out, and encourage decisions along the lines of your remarks a few minutes ago, I think it is worth every bit of effort it will cost. While I would group the programs differently, if this grouping suits them, fine.

I still would not budget that way.

Senator JACKSON. I certainly commend you, Mr. McNeil, for your objectivity in these matters. One who has served as long as you have in the Department of Defense might be expected to have a very rigid approach to some of these things. I must say it is refreshing to note the judicial and impartial way in which you have answered the questions and approached this entire problem.

Mr. Tufts?

Mr. TUFTS. Mr. McNeil, there are two or three points I would like to touch on.

In his appearance before the subcommittee last year, former Secretary Lovett spoke of the need for long-range funding of certain research and development programs. If I may quote him he said:

* * * we need some form of budgeting for certainly half the period of gestation of any new weapon, which used to be in the order of 5, 6, or 7 years—about 5 years to take the low side.

That would mean, say, 2 to 3 years of funding for some approved experimental research and development purpose.

I wonder whether the reforms that were introduced in the Defense Department after Mr. Lovett left, while you were still there, move toward meeting the problem he referred to.

Mr. McNEIL. Yes, I think they do.

Some years ago there were no continuing type funds in the Department of Defense except for shipbuilding and construction. At the present time all research and development funds in the Department are of the continuing type. All, or at least, 99 percent of the major procurement funds, are of the continuing type.

Wherever you have continuing type funds available, first, you cut out the tendency for the June buying rush and can have a more studied approach to the use of funds, because June 30, the end of a fiscal year, has no particular significance.

The mechanism is such today that if in the judgment of the Department or administration or Congress they wished to finance or support by appropriations a long-range program, all it has to do is specify the amount or identify it in the committee report or have an understanding that it is so earmarked, and it is available as long or as far ahead as you choose to carry it—5 years, if you wish.

Today the funds for an aircraft carrier last—or are continued available—for 6 years. So it sits there available for the purpose.

In identically the same way, if Defense and Congress chooses to do it, it could be done for research.

The mechanism is available. The principle is established.

I might say Congress really has taken some very forward steps in the last 10 or 15 years, to finance the defense effort, to put it on a sounder basis than ever existed before World War II.

Mr. TUFTS. I would like to refer to President Eisenhower's last budget message and read one final paragraph from the message:

The budget process is a means of establishing Government policies, improving the management of Government operations, and planning and conducting the Government's fiscal role in the life of the Nation. Whether that role is increasing, decreasing, or remaining unchanged, the budget process is perhaps our most significant device for planning, controlling, and coordinating our programs and policies as well as our finances.

I wonder if you could tell us a little about the use of the defense budget as a device for controlling and coordinating defense programs and policies?

Was it, for example, a function of the Comptroller's office to keep the Secretary and the President informed about the progress of defense programs, or lack of progress? Did you make use of the budget for what in business would be called top management control?

Mr. McNEIL. Yes. I never was satisfied with the adequacy of the product. Anything that my successors can do to improve the adequacy, I think, will be very helpful.

There was no particular problem on the money side.

But I never thought we were relating our progress reports from a scientific angle or engineering viewpoint—let us say the progress in the development of new missiles—with the money as well as we might. Anything anybody can do to help that situation will be taking a step ahead.

Is that responsive to your question?

Mr. TUFTS. Yes, it is.

Do you think that there is important progress to be made in the Government, as you have observed it over the years, in the budgetary device as a controlling and coordinating procedure? I am thinking now of something more broad than defense.

Mr. McNEIL. I do. I have felt strongly about that over the years because while, as the chairman knows, and as has hinted a little bit even this morning, there have been times over the last 10 years that in attempting to carry out some of those ideas you just expressed, there were some who thought I tended to go a little bit too far.

Am I saying it nicely, sir?

Senator JACKSON. Right. I said earlier you were very impartial, fair, and judicious.

Mr. McNEIL. But I urged that within the Department of Defense the Comptroller function be established, and be established by statute. I discussed it with the Armed Services Committee at length some years ago. Mr. Eberstadt, whom I think the chairman knows quite well, helped very much in presenting the idea to Congress and as a result it became part of the National Security Act of 1949, with the hope that it would establish the principle very much along the lines that you are talking about.

We started from scratch in 1949 because up to that time the budget was just merely a device to present appropriations and it was not considered a part of the management tool of the Secretary or the management as a whole as it is today.

Mr. Lovett did a great deal to further this principle. He understood it very, very well.

Mr. Forrestal understood it very well.

It can be developed much further.

In fact, without their help, without Forrestal's basic thinking, I don't think some of those things would have been in the National Security Act today.

I would say more than the surface has been scratched, but they have a long way to go. They are still in grade school.

Mr. TUFPS. Now, I would like to return a little reluctantly to this question of guidelines and make the point that I think has not been made.

One of the criticisms that is frequently heard is that important program decisions have had to be made in the hectic rush of final budget review. As I understand the approach now being introduced, it is designed to separate program decisions on the one hand from budgetary decisions on the other in the sense that program decisions would be made on a continuing basis throughout the year and that the problem of preparing the budget would be simply a matter of costing approved programs when budget time rolls around.

I wondered if you could comment on this approach. Is it possible to separate program decisions and budget decisions in this limited sense?

Mr. McNEIL. I think it is a worthwhile goal. I don't think it will be realized. I just don't think it is quite that simple.

Certainly a decision to proceed with an aircraft or a particular missile does not have to wait until the last minute in December, but as long as we live in the kind of world we have there are going to be changes and there will be last-minute decisions. I took the liberty of mentioning in my opening statement that a month or two ago I doubt very much if we could have found anyone who would have said that there had been a firm decision on what the press says will be presented tonight by the President. I would call that a last-minute change.

But to the extent that during the year you can firm up the fact that we ought to have an 1,800-mile POLARIS or a 2,500-mile POLARIS, I think you should try to do it. I thought that such planning had been done for a long time. Finally, however, you put the package together in December when it comes to Congress.

There was a time when we presented the budget in September, almost a year before the beginning of the operating year.

This was changed with the help of the Bureau of the Budget. It was changed back in 1950 with Mr. Webb and Mr. Pace and carried on through the succeeding years because of the peculiar nature of the defense budget and because it is recognized it ought to be prepared, incorporating the final decisions as late as you can, before the request is submitted to Congress.

Both the Bureau of the Budget and Defense have worked together in order to be able to keep open until the last minute in December

the chance for last-minute revisions deemed necessary. Now all decisions are not held until that time.

In previous years—I suppose they will go to Hyannisport now—we used to go down to Georgia for the final decisions in December. All decisions were not made then.

Perhaps a half dozen final decisions were involved at the time, some of them rather large, perhaps, some of them firming up tentative earlier plans, or just going over the last draft to be sure that what came to Congress represented the best thinking at the latest date possible.

The submission to the Bureau of the Budget in December, rather than the old practice of September, means that 3 or more months' experience can be put into the message. I would favor making decisions early but keeping the budget open as long as you could for up-to-date revisions.

I hope they will continue to make last-minute revisions but still make every decision as early as can properly be done.

Mr. TUFTS. You have just alluded to the relation between the Budget Bureau and the Defense Establishment which reminds me that you have discussed the advantages of close involvement of the Budget Bureau in the preparation of the defense budget right along. Do you see any disadvantages in this from the point of view of the President?

The traditional notion has been that the Bureau should have an arm's-length relationship with the departments and agencies of the executive branch. Do you think that the procedures that have developed have interfered in any way with that arm's-length view?

Mr. McNEIL. Perhaps I did not make that point as clearly as I might have a little bit ago.

I mentioned it was rather a difficult type of relationship to maintain and continue, but to emphasize the very point you made, I think there should be a bit of an arm's-length relationship. I said it in a different way a minute ago. I said it was difficult to have them working in the Pentagon, reporting to work at 8 in the morning, but on the way home stop by and tell the Director of the Bureau of the Budget of the things going on in the Department of Defense.

We endeavored when I was there—and I am sure they do today to keep the arm's-length relationship, but still develop an intimate knowledge between the two agencies of what was going on.

Now, you have to "work" to keep this relationship. The minute that the Defense Department attempts to "seduce" the Bureau of the Budget staff the idea should be abandoned.

As long as they go back each night to report to the Bureau of the Budget, I doubt that that will happen.

Mr. TUFTS. I have one last question. What role in your time did the unified and specified commands have in the budget preparation and would you see an advantage in strengthening their role in any way in the preparation of the budget?

Mr. McNEIL. No; I would not. I think their views are now pretty well presented, both directly—under the present type of organization—to the Joint Chiefs and joint staffs, to the Secretary of Defense, but separately, every one of them has their direct connection or "pipe-line" to a military department, I think their view is pretty well presented.

I think if you get a unified or specified commander devoting more time to the details of the budget picture, I doubt if planning for use of the fighting forces assigned to them would be as good.

It seems to me they should emphasize that part of his job because those are the resources given to him to utilize. It is not a budget problem at that juncture.

Senator JACKSON. Mr. Kreger?

Mr. KREGER. I have no questions. I would just like to join in thanking Mr. McNeil for a most objective and useful statement. They told me before we started this morning that he had appeared before 90 congressional committees, during 1 session of Congress.

I would certainly say that your statement and appearance here this morning is testimony to your experience in the past. I appreciate your frank expressions.

Mr. McNEIL. Thank you, sir. I told you in order to reach that number that I doubled up on you. I counted the morning and afternoon as two appearances, and if I had to go at 10 o'clock to one place and at 11 o'clock to the other, I counted that as two.

Senator JACKSON. You have been away from it for 2 years, but I must say you have not lost any of your ability to be an able advocate before a congressional committee.

I just have one last question, Mr. McNeil, before we conclude.

As you know, this committee has been concerned in this part of our study about how we can obtain better talent in the Government and get them to stay.

You certainly have been a fine example of the kind of individual who was willing to stay on in the Federal Government and to carry a heavy load in both administrations.

I wondered if you have any general comments that you feel you could make that might be helpful in our endeavors to assist in every way possible to obtain the best possible talent in the broad area of national security.

Mr. McNEIL. I think your question, Mr. Chairman, touches on probably one of the most important aspects of government or defense and government as a whole because it is people that make this thing work.

There is a tremendous number of able people in government today, both in uniform and out. Many times the past 2 years I wished I had been able to have certain talent ordered to duty. It would be a lot simpler than my present task of trying to lure them away from government at apparently noncompetitive salaries. Considering the top level, however, I think the Government does not have the advantages of some able people in the country because of the conflict-of-interest problem.

If in some way we could define, either by legislation or a statement of principles, a policy in that regard, it would probably do a great deal to solve that one important phase of the problem.

Senator JACKSON. We are able to get these people here when a hot war gets underway. You were there, of course, during the Korean conflict, and we got whatever people we needed into the Government, did we not?

But in the long-drawn-out cold war, we run into the archaic conflict-of-interest statutes that really inflict damage on the security of our Nation.

Mr. McNEIL. Very much so. I recall Secretary Lovett making some calls and making some visits to secure able talent for Defense. In one case, we called 57 people before we could fill one job and we thought we only called good prospects, we didn't go out completely cold to recruit.

Secretary Wilson's confirmation was quite a celebrated case of conflict of interest. Later I thought it was interesting to see that General Motors which was No. 2 or No. 3 on the list of those holding defense contracts when he became Secretary was not even among the first hundred when he left.

Several people in General Motors, whom I know, were quite critical and in the future hoped nobody left that company for Government service because if they wanted to get their fair share of the business, they had better not have a representative in the Defense Department.

It seems to me in conflict of interest of that type—in his case the ownership of General Motors stock could have been accepted. Everybody knew he had been there most of his life and certainly would have some sympathies, but at the same time knew that he would probably have to lean over backward to be sure his former company would not benefit. You live in a goldfish bowl in one of these Government departments. Under such circumstances it would appear that if he would file a list of securities, et cetera, with the parent committees in the Congress—in this case the Armed Services Committees—not requiring him to dispose of his securities—I wonder if you would not have a pretty safe system because I know of no one that I have served under, Mr. Forrestal, Johnson, Lovett, Wilson or McElroy, or Mr. Gates, that would not lean over backward to be objective. I am sure Mr. McNamara would lean over backward to see that his former connection did not receive an unwarranted advantage.

As a matter of fact, Mr. Lovett, when Secretary, would not touch anything in connection with the Union Pacific Railroad, just because of family relationships even though he held no securities in it.

That is the kind of people that future Presidents are going to select for these important posts and I think the parent committees of Congress would be sufficient watchdogs because the press, the radio today, and the Federal employees, are not going to let people get by with much.

Now, I think a great deal can be done by the Government, the administration, itself, and the executive branch in making Government jobs more attractive.

I am not thinking at this juncture of salaries alone, but there is the feeling among many employees that they are martyrs if they work for the Government. They are not—at least I don't think so.

I got a great deal out of it. Certainly I did not make any money, but I had the satisfaction of working with some very wonderful people in this country.

I am wondering if we are doing quite as much as we could to convince people who are now working or who could be induced to come that working for Uncle Sam is quite respectable and really a very decent way to live.

I think the salary levels for certain of the higher grades are too low. The United States never will pay as much as industry in the very top grades, nor do I think it should. Nevertheless I think the levels at

the Assistant Secretary and perhaps the next two or three layers, are too low.

The Executive and Cabinet members are too low.

I would not object to seeing Senators and Representatives getting more.

Senator JACKSON. I will relay it to my colleagues.

Mr. McNEIL. I think you could do something along that line. Generally speaking, the Government pays more today for the intermediate levels than does business.

Senator JACKSON. This is where the bulk of your personnel cost occurs. Is that not true?

Mr. McNEIL. That is right.

Senator JACKSON. I mean raising it in some of the key spots in the higher echelons would not be as costly, relatively speaking, would it?

Mr. McNEIL. You could not find any better way to spend a limited amount of money. However, in the middle grades it is different. I know a dozen people in Washington I would like to employ. They are in the middle grades, staff people, but they are getting more today than I can pay them.

I would have to change the whole salary scale of 50 or more very competent people in our organization if I employed any of them. So I can't.

But when you get just above those grades it is no trick at all. We can siphon them off without any trouble because our senior salary scales are just a little bit above them.

Senator JACKSON. In other words, selective salary adjustments could be a very helpful factor in retaining and obtaining better people?

Mr. McNEIL. It would, indeed. I don't know whether it should be the Civil Service Commission, probably not; or perhaps the White House, who should take the lead in selling both present employees and outsiders on the advantages of working for the Government. And there are many. In many positions—I repeat—they think they are martyrs to work for Uncle Sam, and it is not correct, in my opinion.

Senator JACKSON. We certainly thank you very much for your important comments. Again, our thanks to you for helping us with our study. We are very grateful to you.

The next witness is Mr. Maurice Stans, former Director of the Bureau of the Budget on Monday next, at 10 a.m., to be followed the following day on Tuesday by Mr. David Bell, the present head of the Bureau of the Budget.

Thank you.

Mr. McNEIL. Thank you very much, Mr. Chairman.

Senator JACKSON. The committee stands in recess until 10 a.m., Monday, July 31.

(Thereupon, at 12:35 p.m., the subcommittee was recessed, to reconvene at 10 a.m., Monday, July 31, 1961.)

THE BUDGET AND THE POLICY PROCESS

MONDAY, JULY 31, 1961

U.S. SENATE,
SUBCOMMITTEE ON NATIONAL POLICY MACHINERY,
COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m. in room 3302, New Senate Office Building, Senator Henry M. Jackson (chairman of the subcommittee) presiding.

Present: Senators Jackson and Mundt.

Staff members present: J. K. Mansfield, staff director; Robert W. Tufts, chief consultant; Dorothy Fosdick and Brewster C. Denny, professional staff members; and Roderick F. Kreger, minority counsel. Senator JACKSON. The subcommittee will come to order.

The subcommittee continues today its hearings on the problems of the budget as a primary executive instrument for the planning and management of national security policy.

This series represents one part of the subcommittee's broader study. That broader study is to determine how our Government can best staff and organize itself for the demanding years of cold war which stretch ahead.

The budgetary process lies at the very heart of national security planning and programing. Policies without dollar signs attached are mere statements of aspiration. It is the budgetary process which converts them into actual programs.

Last week we took important testimony from Mr. Charles J. Hitch, Assistant Secretary of Defense and Comptroller, and Mr. Wilfred J. McNeil, president of the Grace Line, Inc., and former Comptroller of the Defense Department.

This morning I am delighted to welcome as our witness, Mr. Maurice H. Stans, president of Western Bancorporation, Los Angeles.

Mr. Stans needs no introduction to members of this committee. He served as Director of the Bureau of the Budget in the Eisenhower administration from 1958 to 1961. He is highly qualified to discuss the role of the budgetary process in the making and execution of national security policy.

Mr. Stans, it is a real privilege to welcome you to the committee this morning and we will be delighted to have your statement.

I understand Dr. Ralph Reid, a former Assistant Director of the Bureau of the Budget, is with you and he may during the course of the questioning respond to some of the matters that may be asked. We are delighted to have you too, Dr. Reid.

STATEMENT OF MAURICE H. STANS, PRESIDENT, WESTERN BANCORPORATION AND FORMER DIRECTOR, BUREAU OF THE BUDGET, 1958-61; ACCOMPANIED BY DR. RALPH REID, FORMER ASSISTANT DIRECTOR OF THE BUREAU OF THE BUDGET

Mr. STANS. Mr. Chairman and members of the committee, I very much appreciate the invitation to meet with you today and to discuss some of the problems related to organizing our Government for national security. Certainly this subject is one which is vital to our future as a nation, and the committee is to be commended for the serious attention which it has focused on it.

The committee's careful and judicious consideration of the points of view offered in these hearings can lead to valuable conclusions that will strengthen the national capacity for survival. This will be true even if the committee concludes that in many areas past and present procedures are not susceptible to significant improvement—since the endorsements of the committee, where appropriate, will strengthen the confidence of our citizens in the management of our affairs in these times of stress and tension.

Although the responsibilities of a Director of the Budget are manifold, it seems to me that there are two areas which are of particular interest to this committee: (1) the assistance given to the President in respect to the Federal budget; and (2) the aid provided to the President in regard to the organization and management of the Federal Government. Within this compass I thought it might be helpful if I were to devote some time in these initial remarks to two separate areas in which in one way or another I carried responsibilities: (1) the budgetary process; and (2) the organization of the Executive Office of the President. These two subjects, of course, relate to the efficiency of the staff assistance available to the President.

THE BUDGET PROCESS

For perspective, I would like to touch first on a few elementary facts about the budget process:

1. The Bureau of the Budget is a statutory arm of the President. In budgetary matters it does not operate in a vacuum. It undertakes to carry out the express or implied policies of the President. It acts as it believes the President would act if time permitted him to deal with each particular situation in the light of all the known facts.

2. The annual budget is the President's budget. The decisions which it reflects are his—not only as to programs and activities but as to fiscal policy.

In other words, the major budgetary function of the Bureau is to evaluate priorities and issues for the President and to advise him of their relationship to his policies. All of the Bureau's activities in the budget process are directed to the end of preparing a document which represents the President's concept of national needs and priorities. From this the Congress exercises its judgment in making appropriations.

One even more elementary fact: Budgeting is choosing among spending alternatives. If there is enough money to meet all demands, and no choices are necessary, then the plans are no longer a budget

but a spending list. Actually, there is never enough to go around—which means that it is necessary to fix the priority of claims on resources. Priority may be recognized by inclusion of a request in whole or in part, or by rejection.

It is natural then that there may be dissatisfaction with this process by those dedicated, determined people in the Government agencies who seek more funds than they receive. They sometimes fail to see that their own budget requests are based on subjective, provincial points of view. Only the President sees the overall measures of the Nation's needs and can keep them in proportion. (If I may be permitted a less serious note, I think the matter is summed up in a phrase which I used some time ago and which has since been publicly referred to as "Stans' Law": "Effective budgeting is the uniform distribution of dissatisfaction.")

Thus it is also natural in budgeting for an organization as large as the Government of the United States that there be misunderstandings. These misunderstandings result in various accusations, some of which have crept into these hearings: The Bureau of the Budget is "arbitrary and capricious." It "fixes ceilings." It is "preoccupied with balancing." It "controls our defense policies"; and so on.

My first and perhaps major point here today is a defense of the budget process and of the Bureau of the Budget as essential to the Nation's organization of its activities. If there were not a budget process basically similar to that which we have there would be fiscal chaos. If there were not a Bureau of the Budget there would have to be another agency under another name performing the same functions.

With all this as background, I come now to the matter of how the process works and how it can be improved, to the advantage of the President, of Congress, of the national security and of the taxpaying public.

In this regard, it has seemed to me that perhaps it would be most useful if I were to discuss seriatim some of the principal questions raised about the budget process during the past year—both before this committee and elsewhere. I am sure there are other questions to which you would like me to respond and I should, of course, be happy to do so later.

The question which appears to have been raised most frequently is whether our national security processes and our budget processes have been closely enough related. During my term of service as Director of the Budget, I was quite convinced that they were.

This is not intended to mean that there are no opportunities for betterment in the mechanics of budget analysis and presentation. Some notable improvements were made in the last few years, other changes are now being planned, and as time goes on there will surely be found many ways of making more clear the significance of budget proposals. But I do mean that there has been, I believe, every reasonable opportunity for the exposure, communication, advocacy and evaluation of program ideas advanced by all agencies, including Defense, and that the President formulated his budgets under these conditions.

Perhaps the second most frequently raised question has been whether the budget process, over the past few years, has permitted the Budget Director to impose ceilings on the Department of Defense.

Over 2 years ago I testified under oath on this question before the Preparedness Investigating Subcommittee of the Committee on Armed Services of the Senate. For your own records I should like to repeat again what I said at that time in response to the question:

Have you fixed a ceiling or formulated a target for the 1961 budget?

My reply was:

Well, I want to answer that carefully because the choice of words is very important. I have not fixed a ceiling this year and did not fix one last year.

I do think that it is important, in considering a budget of this size, to take a look at it at various levels. By that, I mean I think the Department of Defense should determine what kind of defense it can provide for \$40 billion.

If this is done and everything is given its proper ranking in priority, then it can be determined whether or not it provides an adequate program, which items are next in rank of priority that should be considered, and which items are marginal or least essential. This does not mean I think that the defense of the country can unquestionably be satisfied for \$40 billion. It means that as a matter of method I think the Department should start with a figure of that general magnitude and see what kind of a budget it can prepare at that level, and what, if anything, is then left out that is still sufficiently important that it has to be added.

That, in my opinion, is not a ceiling at all and it is not a target either. It is a method of procedure that I think is a desirable one to follow. I think all agencies of the Government should use a similar approach.

In the context of today's hearing, with the committee looking for constructive ways of improving the budget process, I would like not only to reiterate this view but to express a related thought. There is a tendency at budget time for both defense and nondefense agencies and subordinate units to look at a budget for one year as a "floor" for the next year, with new programs and other growth entirely additive. To accept this would be to ignore the responsibility to require the older items to compete properly with the new in priorities. Every item in a budget request should be severely tested, and this cannot be done unless some flotation process is found to bring to the top the lesser or marginal items of the previous budget. This is why I believe so strongly that a budget base for one year should start at a point significantly less in total than the previous year, and that items proposed for addition to that base should be evaluated in relative importance and need, whether old or new. Only by this means will less important going programs ever be retired or reduced.

This leads to a question, raised in one of this committee's early reports, of whether there might be advance preparation of alternate budgets for major national security programs. The report noted:

Some wish to see one proposed budget at X dollars; another at perhaps 10 percent below this level; and still another at perhaps 10 percent above. Such a procedure, they hold, will permit policymakers to see more clearly, and sooner, what is sacrificed and what is gained at various expenditure levels. Can and should this be done?

In actuality, in the development of the Defense budget the past several years, this is substantially what was done. Since we had to take some common starting point, we selected the total expenditure figure for the current year and asked the Department of Defense what the adequacy would be for the next year of a budget which provided

either the same amount of money, or 10 percent less, or 10 percent more. The Secretary of Defense used this formula, but with other percentages.

Pursuing the matter a step further, however, it has also been suggested that the budget document itself might well reproduce these alternative possibilities. I have considerable doubt whether this would be feasible. The budget must necessarily reflect decision rather than indecision, and in any event the budget message itself can and should provide in regard to certain major programs some explanation of why a particular course of action was selected. It is the responsibility of the President to recommend, and it is not conceivable to me that any purpose would be served by parading anywhere in the budget some or all of the items that he does not recommend.

Another question which frequently arises is whether or not we would profit from budgeting for longer periods of time—say for 5 years. Here I believe we should distinguish carefully between planning and budgeting. There is no question but that *planning* for years ahead is desirable. However, *budgeting*, in the sense of seeking appropriations for such periods of time, could create several types of serious problems.

PRIORITIES

The net effect of a multiyear budget for any period for any program is to give that program an absolute priority over all other programs which do not enjoy such an automatic availability of funds. In other words, in the preparation of each year's budget, it would be necessary to allocate to such a program whatever amount had previously been appropriated in advance, regardless of the requirements of other programs. Assuming that funds are not unlimited, and since the controllable portion of the annual budget is relatively small, this could effectively destroy budgetary management.

LOSS OF CONGRESSIONAL CONTROL

Depending on the year in which it was approved, a 5-year program budget could deny to one or even two succeeding Congresses any control over that program through the appropriations process.

INFLEXIBILITY

One of the most serious objections to any 5-year budget lies in the fact that it is almost impossible to project requirements so far ahead, even if one pays no attention to the priorities of competing programs or the projected availability of funds. The 5-year projection may turn out to represent more than is actually required, so that adherence to the plan would represent a waste of funds. If the projection turns out to represent less than is required the result is to place completely undesirable restraints on the program.

A fair question is whether what is really intended in discussions of multiyear budgets is the provision of some minimum amount for a 3- or 5-year period, with these amounts augmented each year to meet presumably new and pressing requirements. In such case, of course, it is no longer a 3- or 5-year budget.

None of these objections applies to long-range planning, and that is certainly to be encouraged. As you know, it is relatively easy for the Government to start an activity with a small amount of money, with clear knowledge that subsequent expenditures will be much greater. Unless the full implications of ongoing programs are projected well into the future, the aggregate significance of enacted commitments may not be recognized, and this can have a disastrous effect on future fiscal management of the Government.

For some years, the Bureau of the Budget has required most of the agencies to develop 3-year estimates of requirements, and these have entered to some extent into the President's consideration of new proposals. Without doubt this procedure can be improved and extended, but I would express the caution that any public use of future projections should be clearly labeled as tentative and for planning purposes only, so as not to imply any commitment of future resources.

The committee will undoubtedly be interested in knowing that in January of this year I delivered to the President a 10-year projection of future Government spending. Although this is a public document, it does not seem to have received the attention it deserves. As a guide to future planning, it provides a projection of amounts of spending by 1970 at three levels: one somewhat austere, one which carries on the trend (and the commitments) of the last decade or so, and one in between these extremes. Further study and work along this line should be encouraged.

ORGANIZATION

Perhaps the most important question which can be raised with respect to organization for national security is to ask what process can best assure that the total intellectual resources of the Government are made available to assist the President in making crucial policy decisions.

Several points are critical here. First, that in making such policy decisions the President have available the advice of all those counselors whose responsibilities bear on the matter at hand; there is no substitute in the making of policy for the participation of those who will be charged with carrying out that policy. Secondly, and equally important, is the matter of confrontation—of assuring that proponents of alternative courses of action, or of modifications of proposals—debate each other before the President; no other procedure will as rapidly expose the totality of facts bearing on the problem. Thirdly, and also very important, that communication of policy factors and decisions be precise; this means that oral reports of considerations and policy conclusions will not do, because they are too often incomplete and inaccurate, or become so as they pass through agency networks. Carefully written and debated policy statements, approved by the President, are essential to avoid confusion and worse.

Just how a President assures that these concepts are achieved is, of course, a matter for his own determination. Personally, however, I thought the national security policy process as it has evolved over the last decade, and as I participated in it, met these requirements well.

A second question which might properly be raised is how the Executive Office of the President might be better organized to meet the

President's requirements. In this connection I would like very much to recall to you certain points which President Eisenhower made in his last budget message.

He wrote:

The duties placed on the President by the Constitution and the statutes demand the most careful attention to the staffing and organization of the President's office. While the present organization of the Executive Office of the President reflects many constructive steps taken over a period of years, much remains to be done to improve the facilities available to the President. The first requirement for improvement is for the Congress to give the President greater flexibility in organizing his own office to meet his great responsibilities.

Specifically, the Congress should enact legislation authorizing the President to reorganize the Executive Office of the President, including the authority to redistribute statutory functions among the units of the Office; to change the names of units and titles of officers within the Office; to make changes in the membership of the statutory bodies in the Office; and, within the limits of existing laws and available appropriations, to establish new units in the Executive Office and fix the compensation of officers. Such action would insure that future Presidents will possess the latitude to design the working structure of the Presidential Office as they deem necessary for the effective conduct of their duties under the Constitution and the laws. Enactment of such legislation would be a major step forward in strengthening the Office of the President for the critical tests that will surely continue to face our Nation in the years to come. These matters are obviously devoid of partisan considerations.

My experience leads me to suggest the establishment of an Office of Executive Management in the Executive Office of the President in which would be grouped the staff functions necessary to assist the President in the discharge of his managerial responsibilities. In an enterprise as large and as diversified as the executive branch of the Government, there is an imperative need for effective and imaginative central management to strengthen program planning and evaluation, promote efficiency, identify and eliminate waste and duplication, and coordinate numerous interagency operations within approved policy and statutory objectives. The establishment of an Office of Executive Management is highly desirable to help the President achieve the high standards of effective management that the Congress and the people rightfully expect.

I have given much personal study to the assistance the President needs in meeting the multitude of demands placed upon him in conducting and correlating all aspects of foreign political, economic, social, and military affairs. I have reached the conclusion that serious attention should be given to providing in the President's Office an official ranking higher than Cabinet members, possibly with the title of First Secretary of the Government, to assist the President in consulting with the departments on the formulation of national security objectives, in coordinating international programs, and in representing the President at meetings with foreign officials above the rank of Foreign Minister and below the rank of head of state.

I would urge that this legacy of thought by an outgoing President, after 8 years of experience with the burdens of office, be seriously considered by this committee.

CONCLUSION

Now, in conclusion, I would like to recall one other paragraph from his fiscal year 1962 budget message, in which President Eisenhower said:

The budget process is a means of establishing Government policies, improving the management of Government operations, and planning and conducting the Government's fiscal role in the life of the Nation. Whether that role is increasing, decreasing, or remaining unchanged, the budget process is perhaps our most significant device for planning, controlling, and coordinating our programs and policies as well as our finances. Thus the President and the Congress will always need to give attention to the improvement and full utilization of the budget system.

As to ways and means for improving the overall budget process, I would have two suggestions.

First, although the President presents one budget for the entire Government to the Congress each year, the Congress considers the budget in a multitude of pieces rather than as a whole. Financing methods outside the regular appropriation process (so-called back-door spending) are one phase of the problem. The complete separation of the handling of tax legislation from the consideration of appropriations and expenditures adds to the total difficulty. There would be marked gains if the Congress could find a mechanism by which total receipts, total appropriations, and total expenditures could be considered in relation to each other.

Secondly, I believe that future Presidents ought to have the authority to veto items of appropriation measures without the necessity of disapproving an entire appropriation bill. Many Presidents have recommended that this authority be given our Chief Executive and more than 80 percent of the States have given it to their Governors. It is a necessary procedure for strengthening fiscal responsibility, and a proper way by which the President can, in effect, ask the Congress to reconsider an item. As in the case of other vetoes, the Congress would have the authority to override an item veto.

I would not be wholly in character if I did not end with one plea. The protection of the Nation's security requires that we be economically strong as well as militarily strong. We could lose the cold war as easily by the pursuit of unsound fiscal policies that resulted in impairment of our money and our economic strength as we could by neglect of our military resources. In times of tension such as the present, the budgetary flexibility we need to meet emergencies can be provided only if all Americans exercise restraint in their demands for more nonmilitary domestic spending programs. I hope the committee, in whatever conclusions it reaches, will emphasize this point.

Senator JACKSON. Thank you, Mr. Stans. I know I speak for the committee in expressing our appreciation for your coming here today and putting the time and thought into the presentation you have made.

Mr. Stans, it has been stated, or at least some people have the idea, that the Bureau of the Budget itself has grown into a big department that is much different today than was originally conceived; namely, when the Budget and Accounting Act was passed in 1921. The idea was that it would be a personal arm of the President in assisting the President to work out budgetary matters and improve organization. Some feel that the Bureau of the Budget has become rather large and unwieldy and it has sort of become a power unto itself, separate and apart from the President.

Would you care to comment in general on that?

Mr. STANS. I would like very much to comment on that because I think this is a common field of misunderstanding, and I think it is very important for the effective operation of the Bureau in the future that any questions like this be answered.

Senator JACKSON. I think it is a basic question because it accounts for the fact that the Bureau of the Budget is made the target of various claims and counterclaims and countercharges and so on.

Mr. STANS. I think that is right.

First, as to size, during the time I was Director we had approximately 420 people in the Bureau. Of these, only about 250 were directly engaged on the budgetary process. The others were engaged in the other responsibilities of the Bureau in the coordination of legislative matters in the executive branch, in the improvement of management, and in the improvement of accounting and statistics.

That, obviously, is more than the original structure of the Bureau in 1921, but, of course, in 1921 the budget of the United States was somewhere between \$2 billion and \$3 billion and now it is above \$80 billion in addition to large amounts of money that go through the Government trust funds.

As to the function of the Budget Bureau, I think it is quite clear that its sole responsibility is to act as staff to the President, as his right arm in the management of the Government. In a sense, it is a business manager over the Government operations. The Bureau, as I said in my statement, operates under guidelines laid down by the President. It does not make decisions in its own name. It makes whatever conclusions it reaches and whatever action it takes in the name of the President.

This, of course, is frequently misinterpreted as the usurpation of power by the Bureau itself, and it leads to a great many of the attacks on the Bureau that it is arbitrary, capricious, and so on.

As I said in my statement, also, this is a responsibility that someone has to perform. The President has only 24 hours a day and by the provision of 250 people in the Bureau to review the programs of the Government, the President is given what amounts to another 2,000 hours of time in a day for the review of what is going on and for the review of the plans for the future.

The Bureau gets its guidelines from the President in the state of the Union message and the budget message and the economic message and individual conferences with the President, by the representation of the Director of the Budget in the Cabinet, and by the presence of the Director of the Budget in meetings of the National Security Council.

Its sole purpose is to interpret in every action it makes the views and desires of the President. If the Bureau fails in any case in this respect, or if an agency believes it is not carrying out the wishes of the President, that its interpretation of the President's policies are incorrect, the agency has the right and the opportunity of going to the President as an appellant with the Director of the Bureau of the Budget, discussing the matter and getting the President's decisions.

I think by this process the Bureau effectively serves the President and that in this procedure it does not exercise any independent powers, and that the rights of the agencies are fully protected in every respect.

Senator JACKSON. In your experience, did you have a close and continuous working relationship with the President on the matters you mentioned?

Mr. STANS. I would say that in the 3 years that I was Director of the Budget I probably saw the President more often than anyone in the Government, except the people on the immediate White House staff. It was almost a daily matter to meet with him and review some

problem or other, in addition to the regular attendance at the meetings of the Cabinet and the National Security Council.

Senator JACKSON. In other words, there is a real effort to keep the President currently and continuously informed from the standpoint of carrying out his directives, determining his policies on a given matter, and making sure that progress reports are given as to what is happening.

Mr. STANS. Exactly that. From time to time specific progress reports were given him as to the course of budgetary events, as to the course of other directives that at one time or another he had issued, and obviously he also initiated on his own a great many questions as to how specific matters were proceeding.

Senator JACKSON. In other words, major decisions which are announced by the Bureau of the Budget are really the decisions of the President even though the President is burdened by a multitude of things. I take it it has been the policy of the Bureau of the Budget that the President really makes these decisions.

Mr. STANS. Exactly that.

Senator JACKSON. I am asking these questions not with reference to President Eisenhower, but as to the instructions of the Bureau of the Budget and how it operates. You can base your answer only on your experience, but we are trying to get at the operational effect of the Bureau.

Mr. STANS. It is exactly as you describe.

Senator JACKSON. I do not want you to think my questions were personal in that respect. I just wanted to get at the operation of the mechanism.

You feel at least on the major decisions, the President had to delegate to you the exercise of judgment in carrying out the details of his major point of view in a given area?

Mr. STANS. Yes. Obviously the President could not consider all the details of the application of each policy that he had enunciated. If we ever had any doubt as to what the President intended, he was available and we would ask him what his purpose was or exactly the ground rules under which he wanted us to operate on that particular subject.

Senator JACKSON. Obviously in the budget there are items that are far more critical than others. I would like to ask a question or two in the area of national security.

Was it your job, as you saw it, to let the President know what the alternatives were in the vital area of national security in formulating the final budget as it was to come up to the Congress? Could you mention it as far as you can without getting into details about the National Security Council which we will cover in the executive session?

We are applying the rules, Senator Mundt, which were adhered to previously in that regard.

Mr. STANS. We had a special procedure for dealing with the budget affecting the Department of Defense. It was a procedure adopted because of the complexity of its budget and because of the time factors. That procedure was to participate with the financial officers of the Department of Defense in a review of the requests of the various services for budgetary allowances.

By participating in the review, we were able to formulate questions, to raise doubts, and to make suggestions as to changes in the requests of the services and present these suggestions or doubts or questions to the Secretary of Defense for his consideration. The Secretary of Defense always did respectfully consider any such suggestions or questions that we advanced to him and in some cases agreed with us and in some cases disagreed with us.

If, at any time, we were not satisfied with a decision of the Secretary of Defense on a matter which we had raised, we had the right, and many times did so, to go with him to the President for consideration of a particular item. But the basic point I want to make is that the Bureau of the Budget did not arbitrarily reject or assume the power arbitrarily to reject any item in the budget of the Department of Defense which was proposed by the services or by anyone.

What the Bureau of the Budget did was to question or challenge or to express doubts about the necessity of a program, the size of a program, the timing of a program, the cost of a program or any other features in the budget requests, and convey these doubts to the Secretary of Defense for his consideration.

Senator JACKSON. In the final analysis, did you make a recommendation on, say, defense, to the President as to what the overall budget would be and then the Secretary of Defense would make a recommendation and then, I assume, one from the NSC level?

Mr. STANS. It did not work quite that way because we dealt with specific issues and specific programs in our consideration of the Defense budget. When all of these specific issues and programs were resolved, either by the Secretary of Defense to our satisfaction, or by the President—one way or the other—the budget then was the result of all of the considerations up to that point and there were no further issues to be resolved in respect to the total size of the budget.

Senator JACKSON. But you did not start from the premise that it was going to be \$40, \$41, or \$42 billion, or if you added something, something else had to be automatically taken out.

Mr. STANS. No, we did not start from that premise nor did we start with any preconceived idea that the Government had to stop at a certain figure and everything above that had to left out.

I would like to refer to some testimony before this committee which is so inaccurate that it should be corrected. This is a statement by one witness in two short paragraphs:

All of us know how the total budget has always been prepared—except in shooting wars. First, a budget ceiling is determined. This rests upon a judgment about national income, taxes and Federal debt, and the most recent levels of Government expenditures.

Once the total budget ceiling is set, the more or less fixed costs of domestic programs are subtracted. What is left is available for national security. Only in time of shooting war do we begin by asking, "What do we need?" The rest of the time we tailor the defense program to fit the budget. The ceiling is usually an arbitrary judgment figure.

I would say that statement is totally incorrect. If I have not fully cleared up in my statements how the process works, I should be very glad to answer any more questions to show that it just does not work in the way this witness testified.

Senator JACKSON. I have other questions, but I will defer them until later.

Senator Mundt?

Senator MUNDT. Thank you Mr. Chairman, and thank you, Mr. Stans for a very interesting and informative statement. I did not hear the beginning of it but I have read it. I think I will pick up where the chairman left off.

As I understand this process you were describing, that was taking place at the time it did, it provided that any one of the service heads, from the Defense Department or the Pentagon, could if he were persistent enough in his viewpoint, carry his views right up to the top before the budget was finally submitted to the Congress. Is that the way it would work?

Mr. STANS. I would say that is exactly correct and that is the course that frequently happened.

Senator MUNDT. Under that process, anyone charged with a responsibility of any type of defense whether it would be missiles or ships or tanks or men, believing that he is right, has a right to go up to the President. The President eventually rejects or approves.

Mr. STANS. That is correct.

I would like to amplify that a little more because the question frequently comes up as to the qualifications of the personnel in the Bureau of the Budget to raise this type of question. I testified previously before the Congress that the Bureau of the Budget does not fix or question military strategy. It does not have anything to do with war planning. But it does have people who are qualified as specialists in military budgeting, people who have had many years of experience, some of them with 15 or 20 years of reviewing defense programs, defense program costs, timetables and projections. They have such a capability, I think, because their tenure in some cases exceeds that of those whose responsibility in the Department of Defense it is to prepare or recommend the programs. I think their capacity in this respect makes them extremely valuable in asking questions, in challenging the programs or a particular proposal, in challenging the estimates submitted as to what a program will cost, and in general questioning the validity of the assumption and the basis underlying budget programs and proposals.

They also may very well question the apparent duplication of programs as between services, the apparent necessity of a particular program at a given time and in many other ways ask the question "why?" This I think is the proper function of the Bureau of the Budget. If a question can be properly and satisfactorily answered, no further objection remains. If the problems cannot in the opinion of the Secretary of Defense or in the opinion of the Bureau of the Budget be resolved, the only recourse is to take the issue to the President. I think this is a responsibility that has to be performed by someone in Government, someone has to represent the general public and the taxpayer in asking why so much money is being spent, and this is the right role for the Bureau of the Budget in our national security program.

Senator MUNDT. Chronologically, Mr. Stans, just when did the Bureau of the Budget come into being as a functioning institution such as it is today as you have described it? We did not always have it. Before we had the Bureau of the Budget, what did we have?

Mr. STANS. Before we had the Bureau of the Budget, before 1921, each agency prepared its own submissions to the Congress and the only

central act performed by another agency was that of one clerk in the Treasury who added them up and sent them to the Congress for consideration. There was no budgetary process at all.

Senator JACKSON. Was that true during World War I?

Mr. STANS. To the best of my knowledge it was.

Senator MUNDT. I was just going to ask if we went through World War I without some type of Government control.

Mr. STANS. It is my understanding that we did not have the present control or anything similar to it.

Senator MUNDT. We were living in a time when the necessity for a budget was not as clear cut as previously. In 1921 the concept which you have described began to evolve.

Mr. STANS. Yes, there is one somewhat significant change since 1921 which I think I ought to mention. The original concept of the Bureau as outlined by the first Director, Dawes, was that it was not in any sense a policymaking institution and did not participate in any way in the making of policy. Subsequently, and particularly in the Eisenhower administration, the Director of the Budget did play a part in the making of policy in the sense that he was a regular member of the Cabinet and was invited to attend and participate in meetings of the National Security Council. It gave him an opportunity to raise questions and to express doubts and frame issues at the time policy was developed rather than exclusively later on in the application and interpretation of policy.

Senator MUNDT. The Bureau of the Budget frequently writes letters to congressional committees now in conjunction with departmental reports. The departments write in and say the Bureau of the Budget has no objection to our making such and such a statement. That is standard operating procedure in reports from the departments on legislation which does not involve expenditures at all—just pure matters of policy. So I think now the Bureau of the Budget during the Eisenhower Administration—I believe this was true back in the Truman and Roosevelt eras—insisted on a little paragraph which indicated that the Bureau of the Budget had looked the situation over and had passed judgment on it.

Mr. STANS. Since 1921, the Bureau has been given additional responsibilities from those with which it originally started. Some have been by delegation by the President and some by new legislation. The one responsibility that you refer to is the process of legislative clearance within the executive branch, and for that purpose the Bureau has a staff of some 30 people who review legislative proposals from the agencies and who review the views of executive agencies on other legislative proposals. The purpose of this is very simple. The President enunciates his program and it is important that there be unanimity of opinion among the agencies as to how his programs are to be carried out. Therefore the Bureau serves as a clearinghouse for the expression of views of the agencies on legislative matters. If there is a difference of opinion between two agencies on a matter of legislation which in one way or another affects both of them, the responsibility of the Bureau is to get them together and try to get a uniform attitude toward that particular legislation. In that respect the White House staff and even the President himself may play a part in reconciling the views of the agencies or in deciding which of the views

should be supported. This is essentially a mechanical function in the Bureau of seeing that there is coordination and unanimity among the executive agencies in the development of the President's program.

Senator MUNDT. The function is twofold. The most important is fiscal control. It also functions as a house of coordination between the various departments and bureaus of Government to avoid jurisdictional overlaps and duplications and disputes. It functions like the Parliamentarian of the Senate. If we just put bills in the hopper and just grab for them we would not have much order. Sometimes Senators disagree and argue it out and on rare occasions change the designations. In government you have to have correlation. As I envision the Bureau of the Budget, while its reports are not dealing with fiscal affairs, it does serve as a sort of a house of coordination or catalyst for keeping government from knocking itself out from internal disputes.

Mr. STANS. Yes; it sees that the executive branch speaks as one voice.

Senator MUNDT. I thought you made a tremendously interesting point when you said that the Bureau of the Budget or congressional Appropriations Committees sometimes have a tendency to feel they have done pretty well if they look at the budget for last year and use that as a floor without bringing into focus the realities of the situation. Some previous expenditures sometimes have no legitimacy at all in the new budget and barring a new source of expenditure, there should be a sharp cutback. I wish you would discuss that further because I think it strikes a fallacy both in the executive departments, on the hill, and with the public. There is some kind of Sir Galahad merit about not exceeding the previous year's budget, without examining whether there were previous expenses which did not have a right to recur.

Mr. STANS. That is one of the most difficult things we have to contend with. If an agency assumes a 5-percent increase in workload, it usually assumes it ought to have a 5-percent increase in its budget.

If the Bureau of the Budget made allowances on that basis, our expenditures would be tremendously greater than they are. I feel that any additional items proposed should not only be examined but the whole composition of the agency's budget has to be rescreened annually. The worst thing that could happen would be merely to add a factor for an increased workload to an existing base. Sometimes it is difficult to review all of the activities of an agency annually in connection with each budget and it is for that reason that I felt from my experience in the Bureau that the test to apply was the test of the agency's own ideas of its priorities. For example, if an agency had a budget of \$100 million and wanted another \$10 million for new programs, I would like to see that agency prepare its budget as it would operate if it had \$80 million or \$90 million, to see what it really considers to be the most essential of its activities. The result of that is to bring to the top, as I said, the marginal items, those which are of lesser value, and make them compete with the \$10 million of proposed new items, and thereby determine which really is of most significance and of most value and of greatest need to the activities of that agency. In that process, it is possible to fix the real priorities

and I think this is one procedure that ought to be used for every agency of the Government.

Senator MUNDT. I want to develop that a little further because I think in that area there is real chance for economy. Budgets come up to the Hill and our Appropriations Committees look at them. We could think of the budget in terms of sort of setting in motion a parade of priorities, having a comparison of last year's expenditures with next year's expenditures. I think some items have to be chopped off and I think that is especially true in defense. There is a tendency to hang on to the almost antiquated defense instrument tool or hardware even after we go into a new era when we know we need missiles and jets and so forth. I recall we were maintaining stables a long time after people though you would never use a horse in another war, but for sentimental reasons, constituency reasons, and many other reasons, we continued in that direction. We were buying saddles almost at the same time we were buying jets. If we got this thing on a priority basis, somebody at one end of the avenue or the other would say, "What are you going to do with saddles?" What is a pilot to do with a saddle when it is in the cockpit of a plane?

Somebody might go around with an investigator and find 10,000 saddles in a warehouse and discover that it was too bad we bought them because we didn't need them. In this budgetary business we should think in terms of priorities and comparisons.

Mr. STANS. I think the phrase "parade of priorities" is an especially apt one and I would like to add to what you said one other point which I think is very important to our national security activities and that is this: If by failing to disclose or uncover the less valuable and marginal items in an existing budget, the result is to leave out some new item that is of real value and real importance to our national security, we thereby weaken the defense posture of this country. Every item in a budget ought to be on trial for its life each year and matched against all the other claimants to our resources.

Senator MUNDT. I would like to ask you a question now concerning a new concept that Mr. Hitch dropped before our committee. He was talking in terms of missions, studying the orthodox procedures and policies and in terms of a 5-year program instead of a single-year program. Looking at it now from the standpoint of the budget office and the White House do you have any comments to make on that?

Do you feel that would result in any economy?

Mr. STANS. As I understand Mr. Hitch's proposals—and my familiarity with them is only in the last 24 hours since I had time to read his testimony—he covers two grounds. One is a suggestion that the defense budget ought to be planned ahead for more than one year, and the second is that the structure of the defense budget ought to be supplemented by another form or method of presentation that divides the expenditures in the budget for the programs in the budget along functional lines. I would say that I am in general agreement that this is a good procedure, that it can be very helpful to the Secretary of Defense, to the Bureau of the Budget and to the Congress in evaluating the proposals that are made for defense spending.

Certainly I would not agree that we should appropriate for defense purposes for more than 1 year in advance, but I think it is very

important that the Congress and all concerned know the implications of the beginning of a program in 1 year on the budget requirements of future years.

As you know, it is easy to start a program with a small amount of money and have the requirements grow year after year, so I do believe, as I said in my opening statement, that some method of projection or of planning of expenditures and requirements over a period of years is very desirable in the Department of Defense and it is very desirable in connection with the overall budget.

If I may say a little bit more about the package plan that Mr. Hitch presented for the reclassification of the items in the budget along functional lines, this is a procedure which the Bureau of the Budget itself adopted in less formal style during the several years that I was Director. In other words, we did not deal in our analyses with the requests according to services exclusively or according to the basic categories of the budget in terms of personnel, construction, procurement and so on. We were interested in a breakdown of the budget to determine what we were spending in the various functional areas of our defense, such as the amounts that were involved in the budget request for our strategic striking forces as a whole, for our continental defense as a whole, for our ground and sea forces, and for the supporting activities. This would give us a basis for determining the extent to which there might be overlapping of concepts between the services because we brought together the uses to which the expenditures would be put rather than the unit by which they would be used. As I say, we did this on an informal basis and it was very helpful to us in analyzing the budget requests and it was helpful to us in raising questions and issues for the Secretary of Defense and the President to consider.

Mr. Hitch's procedure would formalize that and as I understand it he would use this cross sectioning of the budget or this vertical analysis of the budget as a supplement to the regular budget presentation. The functional characteristics of the budget would be analyzed and revealed to the Congress as a basis of considering the validity of the requests in each of these various fields. I think that is good.

I would have only one doubt that I would express, and that is whether or not the procedures that are proposed might be quite time-consuming and somewhat expensive, and whether or not it might not be possible by dealing with the relatively major items in each of these categories to have the picture in somewhat simpler and a less detailed way. I am sure that Mr. Hitch and the Secretary of Defense will consider that point and if the method of collection of the information is too cumbersome that they will simplify it and streamline it. That is the only doubt I have with respect to that suggestion of Mr. Hitch's and the program that he is carrying out.

Senator MUNDT. I have a number of other questions but I should now like to direct your attention to your concluding thought in which you point out that it would be most helpful if the Congress could have a mechanism by which total receipts, total appropriations and total expenditures could be considered in relation to each other. That certainly is a tremendously significant challenge to Congress and I think it is a goal to be desired.

I don't suppose any Member of the Congress, and I am not sure any member of the Government could tell us what actually are the total receipts, the total appropriations and the total expenditures of the Government in any given year. This is because of a hybrid type of expenditure program, which we have. Part of it is identified by the slang expression, "Back door spending," obligational authority or contractual authority. It gets to be pretty complex in terms of financial jargon and is hard to interpret in terms of what we have actually done.

Could you go any further than you say in your statement:

There would be marked gains if the Congress could find a mechanism by which total receipts, total appropriations, and total expenditures could be considered in relation to each other.

Could we perhaps arrange to put out public documents so that people would actually know how their Government is faring? What could we do to come closer to achieving this goal? I think we are reaching the peril point from the standpoint of fiscal responsibility.

Mr. STANS. This is not a new idea, Senator. It has been discussed a number of times and recommended by President Eisenhower and other Presidents in budget messages. There have been some suggestions as to how this could be done. One perhaps might be a joint congressional committee on the budget which would deal with the budget as a whole and express its views on it prior to the time that the appropriations committees took any action on the individual parts of the budget or prior to the time the Ways and Means Committee considered any pieces of legislation dealing with taxes.

There may be other ways of looking at our financial situation as a whole. But I think this is the important substance of the suggestion: obviously the considerations of any segment of the budget by the subcommittees of the Appropriations Committee are subjective considerations that deal with that one subject only and not in terms of the overall financial predicament of the Government. Unless there is a way for the committees before they deal with each of these individual subjects to see the picture as a whole, we may very well find ourselves in the position of committing ourselves to new legislation and in appropriations to greater amounts of spending than we can afford.

There was one step that was instituted while I was Director which I think was a very small step toward accomplishing this overall result, and that is that I appeared as a witness before the House Appropriations Committee with Secretary Anderson in a discussion for a day or two of the budget as a whole. I think that gave the members of the Appropriations Committee a general view that they might not otherwise have had, but obviously it was only an informational discussion and there was no way in which the committee could express any conclusions that had been reached or take action on them as a whole.

I do think we need some better mechanism for the Congress to look at the revenues and the expenditures not only for the current year but over a period of years and to adjust policies accordingly as the conditions indicate.

Senator MUNDT. How much of a function of the Budget Bureau is it considered to be in connection with the possibility of submitting to Congress more frequently supplemental messages recommending

curtailment of expenditures in certain areas? We get a great many—three or four or five or more—supplemental messages from the Budget Bureau for increased expenditures if something new comes along. How much thought is given to sending a supplemental to Congress recommending that an item should be cut back? Is this a novel idea or is it heresy?

Mr. STANS. It is not an entirely novel idea. During my term of office, however, we did not use supplemental messages as the basis for suggestions for reducing expenditures. In most cases reductions in expenditures can come only by changes in the basic legislation. For that purpose we used the budget message itself as the means of making the various proposals. In each of the last several budgets, we listed somewhere from 10 to 20 items of recommendation to the Congress for changes in laws that would make it possible to reduce existing programs or to eliminate them. As the specific individual messages were sent up dealing with those particular subjects, we reiterated those suggestions.

Where it was possible to propose reductions in programs without changes in legislation, we made those proposals directly in the original budget submissions for the agencies.

I might say that it was somewhat discouraging to find that we were not very successful in recommendations for reductions in expenditures.

Senator MUNDT. I know that, so I just thought it may not be a bad idea if the Budget Bureau established a precedent in sending up messages on supplemental expenditures. I think we could get a little more help from the Budget Bureau in this direction. We appreciate and understand the request for additional funds. Nobody can predict Berlin. Nobody can predict Gagarin and the challenge of space. It would seem to me if we could adopt a *modus operandi* whereby the Budget Bureau, when it sends up requests for additional funds, would recommend curtailment of some of the expenditures previously recommended it would help recognize the importance of the new impact on the budget. Would this be out of reason?

Mr. STANS. Not at all, and I would say I would welcome this or any other approach that would focus the attention of the Congress on the necessity of reducing or eliminating existing programs in order to pay for new programs and especially in order to meet the requirements of national defense.

Senator MUNDT. Congress sometimes does try in its timid and awkward way to reduce expenditures and existing programs when these new and necessary expansions of expenditures occur. But if we could get the same kind of intellectual and persuasive guidance from the Budget Bureau for reduction as we do on expenses, I think Mr. John American taxpayer would go out and buy a new hat and we would be happy for him.

That is all I have.

Senator JACKSON. Mr. Tufts?

Mr. TUFTS. Mr. Stans, 2 years ago in a speech, you said that:

If we go about it in the right way, we can consider the Federal budget as a mirror of the great purposes which motivate us as a nation.

In other words, if I understand you, the role of the Budget Bureau should be much more than that of a "nay sayer." How would you describe the Bureau's positive role?

In your experience did the Bureau ever urge upon the President the importance of larger programs in the area of national security—for example, defense and foreign aid? Did you conceive it to be part of your job as Director to advise the President whether the departmental programs were adequate to the great purposes of the Nation?

Mr. STANS. The Bureau has several positive roles. One of its roles is the responsibility that it has and carries on for the improvement of management within the Government. It has a staff of people whose time is devoted to the introduction of modern management techniques, of the modern processes of management, and I think it works quite effectively.

For example, one of the responsibilities that the Bureau undertook on its own volition in the last few years is that of exercising surveillance over the introduction of electronic data processing and equipment in the various agencies. It has the responsibility for the improvement of financial management in the Government and for the improvement of statistics.

In addition to this, it possesses a very positive role in connection with the agencies by making recommendations to them in the course of the year, and particularly at the time of the annual budget review, as to how their operations may effectively be improved or how services may, in one way or another, be improved or how unnecessary activities may be eliminated.

In other words, our attention is not devoted strictly to dealing with money amounts. It is devoted as well to the better management of the affairs of the agencies and in that sense, of course, the money amounts are secondary.

Mr. TUFTS. I would like to pursue this with reference to programs. Did the Bureau have any positive role with reference to these programs? In your experience, for example, did the Bureau ever urge to the President the importance of larger programs in the area of national security, for example, foreign aid or defense?

Mr. STANS. I would say that there have been a number of occasions in the past in which the Bureau has questioned whether the amounts of expenditures or authorizations for a given program were adequate to accomplish the objectives of the program. There have been some of those, both in the military and in the civilian agencies.

Mr. TUFTS. Did you conceive it as part of your job as Director to advise the President, then, whether departmental programs were adequate for what you call great purposes?

Mr. STANS. I considered it our responsibility to do that just as much as to indicate that programs were excessive or unnecessary.

I might say that the occasions for us to make recommendations along that line were very much less frequent, because the agencies themselves did a pretty good job in asking for all the things that they thought they could effectively carry out.

Mr. TUFTS. Apart from the item veto, what reforms of the budgetary process did President Eisenhower particularly desire? Was he fairly well satisfied with the way the budgetary process worked?

Mr. STANS. I would say that that was only one of the more significant of the various budgetary improvements that we thought ought to be made. As a matter of fact, there were continuing studies of the budget mechanics and procedures by the Bureau and quite a number of improvements that could be made administratively that were made through the time that I was Director. There were reports issued to the President as to the nature and number of these improvements.

There were other improvements that could not be made without legislation and these were listed and recommended in the annual budget message.

For example, in the budget message for 1962's budget, there were six items listed as recommendations for legislation that would improve the budget processes. These specific legislative proposals were:

- (1) Establish revolving funds for major business-type activities.
- (2) Extend budget provisions of the Government Corporation Control Act to certain mixed-ownership corporations.
- (3) Review and reduce number of permanent appropriations.
- (4) Repeal requirements for reservations of foreign currencies, and require accounting for their use in the same way as dollar transactions.
- (5) Eliminate requirements for annual authorizations for continuing programs.
- (6) Authorize the item veto for appropriation bills.

Mr. STANS. All of these, we thought, and the President thought, would have some significant benefits toward improving the budget processes.

Mr. TUFTS. Did President Eisenhower have any specific thought in mind as a way of improving the budgetary process as a means of controlling and coordinating our programs and policies? I am referring to the paragraph that you quoted from his last message in which he spoke of the budget as our most important means for controlling and coordinating programs and policies.

Mr. STANS. I would be inclined to say that except for those I mentioned and except for the continuing improvement in detail, I do not believe that the President had anything specific in mind and that nothing specific comes to my mind as I sit here today.

I think the budgetary process is in a state of evolution and it always is subject to improvement, both in terms of the review, and also in terms of public understanding, which I believe is also very important to effective budgetary control.

Mr. TUFTS. One of the questions which has interested the subcommittee is following through on the execution of policy. It seems to some of us studying these problems that this is an area in which improvement is very much needed and I thought perhaps you might have some specific thoughts about the use of the budget as a device for controlling and coordinating.

Mr. STANS. I am not sure that I understand the question. Do you mean follow through in the sense of actions by the Bureau of the Budget after appropriations are made?

Mr. TUFTS. Yes, to see that programs were carried out as they were supposed to be.

Mr. STANS. I think the Budget Bureau is quite conscious of its responsibility in that field. It has the responsibility by law as you

know to control apportionments of the funds to the agencies in such a way that the amounts available are not dissipated early in the fiscal year and then turn out to be inadequate.

It also has the responsibility and it does act to see that even after funds are appropriated, if the purposes have changed or if the requirements have changed, they are not spent.

For example, the simplest illustration I can think of is that if the Congress appropriates a given amount of money to the Post Office Department on the assumption that it is going to handle 65 billion pieces of mail per year, and it turns out because of business conditions that only 63 billion pieces are going to be handled, the Bureau of the Budget very definitely undertakes to work with the Post Office Department to place in reserve some of the moneys appropriated to it that ought not to be used to see that they are not, in effect, dissipated beyond actual needs.

Mr. TUFPS. Did you, for example, make your own studies of the conduct, say, of the foreign aid programs, to see whether the programs were accomplishing what, in your judgment, they were supposed to accomplish as a basis for your review of the coming year's program?

Mr. STANS. We made some informal studies along that line. I would not say we ever made a thoroughly comprehensive analysis of our foreign aid program, but members of our staff did make studies on spot locations of what was going on and did make recommendations of one kind or another.

We did under section 604 of the Mutual Security Act, last year, make a study in the Bureau of the Budget of the organization of the mutual security activities and this was the subject of a report early this year.

Senator MUNDT. In this area of followthrough that we are talking about, Congress has something which is somewhat tantamount to a budget bureau of its own in the Office of the Comptroller General. We have set it up to serve us and check on funds.

I wonder what, if any, coordination there is between the Office of the Bureau of the Budget and the Office of the Comptroller General.

Mr. STANS. His responsibility is essentially a postaudit. He reviews the application of funds after they have been spent and determines whether they were spent in accordance with the purposes of the Congress and were spent efficiently.

What we do is follow very closely the reports of the Comptroller General and in, I think, 1959 or 1960, we issued an order to all of the agencies requiring them to deal with these reports in a certain way and keep us informed of their action with respect to the criticisms and recommendations of the Comptroller General so that we could at all times be satisfied that any appropriate actions were taken, that corrections were made, and that any resulting savings to the Government were reflected in future budgets.

In addition to that, there was another coordinated activity known as the joint financial management improvement program in Government. This was a joint activity conducted by the Bureau of the Budget, the General Accounting Office and the Treasury Department, exercising intensive effort to cause the modernization and improvement of accounting processes in all of the agencies.

Senator MUNDT. This sounds interesting. Is this a new development—a continuing development—and does it function today? To whom does this group report. To the Congress or to the White House or to the Bureau of the Budget? Or is it a matter of self-discipline among the groups?

Mr. STANS. This is a program which was instituted about 11 or 12 years ago and it has been carried on quite aggressively during this entire period. Its activities are reflected in a quite voluminous annual report which is made available to the President and to the Congress, in which the accomplishments of the program are recited and to some extent the deficiencies in the agencies in meeting their statutory and practical accounting requirements are noted.

Senator MUNDT. Does it move in the direction of trying to provide this composite picture referred to in the paragraph that I cited in my final questioning to you to provide the mechanism by which total receipts, total appropriations and total expenditures might be considered in relation to each other? Does it operate in that area, too?

Mr. STANS. No. It has not particularly operated in that area. It has operated more in connection with the refinement and improvement of the accounting processes, the reporting processes, the procedures of analysis, statistics and cost accounting in the individual agencies of Government.

Senator MUNDT. It seems to me you have in that kind of committee just about the proper experts and authorities to operate in the area of making suggestions to Congress about some mechanism which they might evolve to provide this composite picture.

Mr. STANS. I have felt, Senator Mundt, that the executive branch does a pretty good job of relating expenditures and authorizations to expected revenues. This is done by the Bureau of the Budget and the President in the review of the annual appropriations requests. I think the inadequacy that exists is basically that in the Congress itself, in dealing with, as I said, these appropriations request on a purely subjective basis, and while suggestions of one kind and another have been made as to how these procedures might be improved, the Congress itself has not found a way of accomplishing the results which have been sought.

Senator MUNDT. Are you thinking in terms of this joint appropriations commission report that we are talking about?

Mr. STANS. I thought something like a joint committee on the budget or something of that sort could review the budget first before there was any consideration of appropriations by the Appropriations Committee or any consideration of revenue-raising legislation by the Ways and Means Committee.

Senator MUNDT. As you know, we have two joint congressional committees which are functioning rather successfully and rather fruitfully, one on taxation and one on atomic energy. Both of these committees have justified the joint committee approach, but in the field of appropriations we have had difficulty with our Members in the House who rightfully believe that the Constitution imposes upon them some special responsibilities on appropriations. They are understandably reluctant to call in the Senate and say, "Let's call in the Senate and say 'Let's operate on a par in this matter,'" I think it is a goal to be sought.

I have joined in the sponsorship of legislation to produce it but we need a little more education in the House.

Mr. STANS. There is, also, I believe, a Joint Committee on the Economic Report.

Senator MUNDT. I am a little less enthusiastic about that than the other two.

Mr. STANS. I do not believe it addresses itself with particularity to the budget as a whole. But a joint committee on budget could hold a limited number of hearings on budget requirements for a given year, on the proposals of the President, on the implications of these proposals over a period of years, the relationship of the budget to economic conditions, present and expected in the near future, on the implications of the budget to the national debt and other factors; it could be a very salutary benefit to the Appropriations Committees and to the Ways and Means Committee in the consideration of revenues and expenditures in their individual facets.

Senator MUNDT. I think that is right and I have joined in sponsorship of that type of resolution. The Senate has passed it but the House has not. Both the chairman and I have been Members of the House and we understand the House's position. I am pretty well convinced that the House is never going to pass it.

Perhaps this triumvirate group that you mentioned might give study to other suggestions and how the goal might be achieved. I think there might be other roads to the top of the mountain. I don't think we are going to succeed in inducing the House to relinquish a special responsibility which the Constitution places in their hand. But I don't want to abandon the ship on the concept.

Mr. STANS. I would not expect the House to waive any of its constitutional prerogatives, and that is why I would suggest a joint committee on the budget rather than a joint committee on appropriations. I think a joint committee on the budget could review the fiscal policies of the Government in light of economic conditions and in the light of trends and other factors and express its conclusions which would be helpful to the House in exercising its constitutional privileges on appropriations.

Senator MUNDT. Every time a Senator walks into a committee room with a House Member, the House Member is suspicious of any conclusions we might reach. So I would recommend you experts in the field of making recommendations to the Congress try to find some ways the committees of the Congress, acting independently, can achieve the same goal. That, I agree, can be achieved better if we operate together.

We have expressed ourselves and we have held out the olive leaf several times.

Mr. TUTTS. I would like to turn for a few moments to the Office of Executive Management. Could you tell us something more about what its place in the executive office would be, what its specific tasks would be, and in what ways would it be especially helpful to the President?

Mr. STANS. A discussion of this was pretty thoroughly presented to the committee by Nelson Rockefeller in his testimony last year. Essentially—and I participated in a great many discussions on this with the President and with members of the White House staff, with Gov-

ernor Rockefeller's Committee on Government Organization, and else where—it is based on the conviction that there should be a better way to give staff aid to the President in the business management end of the Government and a better way to organize these various activities that fall within that responsibility.

Essentially, the thing that troubles me is the fact that the management activities of the Government, being in the Bureau of the Budget, have a cast which makes them in a sense subordinate to the budget functions. I think the reverse ought to be true. I think the budget functions ought to be a subordinate element of management. If you were to do that then you would come to the conclusion that we ought to have an office of executive management in which budgeting would be one of the activities; the improvement of management in all of its ramifications would be another.

The general aspect of longer range planning of the affairs of Government would be one that would come under the general category of management and would be within this organization. I think there are some units that for expediency did not fit anywhere else in the Government that the President in recent years took into the White House staff that could well be part of the Office of Executive Management. This is an extension really of the philosophy that was recommended in one of the commissions in about 1939, at which time the Bureau of the Budget was removed from the Treasury and given added responsibilities. Another 22 years have gone by and I think it is time to look again at the business management of the Government, at the part that the Bureau of the Budget plays, the part of the various units in the White House that relate to this field, and pull them all together into one staff unit reporting to the President.

I think that in that process, as I said earlier, budgeting should be one aspect of management and that the focus should not be wholly on budgeting with management subordinated.

Mr. TUFTS. A number of these functions are at present in the Bureau of the Budget?

Mr. STANS. Yes; some of them are in the Bureau of the Budget and some of them are in the White House office.

Mr. TUFTS. Would the Director of this office have more powers than the Director of the Bureau of the Budget has?

Mr. STANS. He would have the same powers but the scope of his activity would be increased. I think, for example, he should undertake more responsibility particularly in the field of long-range planning and consideration of Government activities.

Mr. TUFTS. Would his relation with Cabinet members be any different from those of the Director of the Bureau?

Mr. STANS. I would think not.

Mr. TUFTS. I think you were referring to the Brownlow Committee recommendations.

Mr. STANS. That is right.

Mr. TUFTS. They recommended that there were three major management functions that could be placed in the Executive Office of the President: Personnel management, fiscal management, and what he called planning management, I believe.

As I understand it, you think of the Bureau as the President's principal management agency at present and the Director as the principal manager for fiscal affairs. Should the director of this new

office also have responsibility for personnel management and planning management?

Mr. STANS. I would think so. You mentioned three essential functions—personnel, fiscal management, and planning—and the concept which Nelson Rockefeller testified to and which I feel would be extremely valuable would add to that two others: One, the existing process of legislative clearance within the executive branch which is an essential function that fits nowhere else and, two, the various aspects of the improvement of management, the improvement of accounting, and the improvement of statistics in the Government which are now subordinate units of the Bureau of the Budget. So, in essence, the plan would call for, I believe, five distinct units within the Office of Executive Management.

Mr. TUFTS. One last question on this topic: Would the powers of this new office extend both to domestic and also foreign and military programs?

Mr. STANS. I think their powers and responsibilities would extend to those fields as part of the central management. I don't think that it should be implied by that that they would encroach upon military policy or tactics or military operations. But they would deal, for example, with governmentwide personnel matters some of which would relate to the Department of Defense. They would deal with the overall budget processes very much as they do now. They would deal with legislative clearance matters as they do now and with management improvement programs, a large part of which are focused in the Department of Defense.

I do not think this agency would in any way reduce the independent responsibilities of the Department of Defense and of the other agencies to conduct their affairs in the most efficient way.

In another sense, they would be an aid or a help to the agencies in accomplishing those results.

Mr. TUFTS. With a little reluctance, I will turn now once again to this question of budgetary guidelines. I think in spite of all of your efforts, Mr. Stans, and you might agree, there is still a good bit of misunderstanding on the subject of budget ceilings and their role in the budget process. It is obvious, I take it, that, somehow or other, sooner or later, in the process a limit must be placed on spending including spending for national security purposes.

In your experience, how was this limit established? Did the Secretaries of State and Defense have an opportunity to make their case for national security requirements early enough in the process to have an influence on the limit? Was there a chance, so to speak, for national security requirements to take priority over budgetary restraints?

Mr. STANS. I can assure you I have no reluctance in answering the question you raise because I think it is extremely important that this part of the work of the Bureau of the Budget be understood. The Bureau of the Budget at no time put a fixed frozen limit on spending on the budget as a whole or on the Department of Defense.

At the same time I agree with you that somehow or other it must be recognized that there is a practical limit on Government spending, even including spending for national security purposes. Any budget must be developed with a proper relationship between total revenues and total expenditures, considering economic conditions

and many other factors. Defense expenditures cannot be unlimited because if they are so great as to cause the total budget to impose undue financing strains on the Treasury and to threaten inflationary consequences, that would weaken rather than strengthen our overall defense posture. The cold war is being fought on a number of fronts. One of these is the economic front and Khrushchev has made it plain that he expects our economy in time to collapse internally because of its own weaknesses. To avoid playing into his hands it must be accepted that there is some limit to what we can spend on defense, and especially in this period of cold war. The overall level of the budget expenditures was necessarily under discipline, but no effort was ever made to determine a spending limit so precisely as to impose a strict dollar ceiling on the defense budget.

The process of preparing a budget proceeded generally each year on three different fronts concurrently. One was the continuing estimates and reestimates of the level of revenues that we could expect. We did not have the final figures on the revenues to go into an annual budget until almost the last day before it went to press.

The second front on which the budget procedures were carried on was in that of the Department of Defense and here the process was to work with the Department in the review of the specific programs conducted by the financial office in the Department, principally by the Comptroller himself.

As I said, we made recommendations, raised questions, and we had some influence, I'm sure, in the decisions of the Secretary of Defense by challenging some of the proposed expenditures.

We also urged the Secretary of Defense, and to some extent he accommodated us, to look at the budget in terms of what could be bought for a lesser amount of money in order to get a more specific and conscious decision on the relatively marginal items.

The third front on which the budget proceeded was the review of all of the civilian agencies of the Government. This was a day-to-day process and it was not possible for us to put a ceiling on the aggregate of that because we ourselves could not determine what amount should be spent until we had conducted our budget reviews of each of the agencies.

All of this tended to proceed concurrently and to be completed at about the same time. There is very little flexibility in the budget because of the tremendous number of commitments that are made years ahead. There is very little flexibility in the Department of Defense, either, unless there could be a change in the size of the forces or structure of the Department, since personnel costs are almost fixed in advance by statute. The same thing is true in procurement because of the long-term character of a procurement program.

What I am trying to say is that our work was a careful, objective review of the needs, the requirements of the country in the area of national security and in the civilian programs and no ceiling was ever put on either the total budget or in the Department of Defense.

I would not in any way mean to imply that we did not, when we started to make a budget, hope that we could come up with one in balance. We had a careful measure of the expenditure figures that might accomplish a balance, but those estimates were not even conveyed to the agencies. They were our own calculations as we went along of approximately how we were going to come out and what

actions might need to be taken, what decisions might need to be made, to accomplish a balanced budget.

In many of those cases the specific items were reviewed with the President to see whether or not he was willing to make the decisions that were required to come out to a hoped for result.

With respect to the Department of Defense, I have said on some occasions to the Secretary of Defense "I hope that you can come up with a budget that will not exceed a given amount of money. I would like you to start out with a lesser amount and see what else is required." But at no time was a ceiling ever established during the time I was Director of the Budget on the amount that would be spent for the programs of the military services. I do not mean to imply by that that it would be wrong to fix the ceiling. I think in some cases it is a helpful means, but the fact is that no ceilings were actually imposed by the Director of the Budget on the Secretary of Defense.

I do think that in his dealing with the individual services, the Secretary of Defense indicated figures which he wished the services to adhere to but in every case in which he did that, I am quite sure it was made clear that any items that could not be accommodated within such figures could be proposed separately by the services to him, and that was done.

Senator JACKSON. As I understand it, when the discussions were going on, say, on national defense, you went into these discussions without a fixed ceiling. You have indicated that you might try to see what they could do for, for example, \$40 billion and maybe a lesser sum, or an alternate higher sum if it could not be kept within the \$40 billion figure which had been the budget for the previous year.

After you had listened to all of the services and to the individuals involved, would you prepare then a recommendation to the President as to what you felt the overall budget should be and what the portion should be for national defense?

Mr. STANS. No, it was not done in quite that way. What we would do is prepare for the Secretary of Defense a list of items that we thought he ought to reconsider as to either inclusion at all or as to the amount which was being allocated to them. We would sit down with him and review that list and express our doubts and in many cases he would call the people back in who had proposed the particular programs and review them with those particular individuals.

Then he would make his decision as to what he thought ought to be done with the questions and the challenges we had raised. At that point, if we were not satisfied, if we still felt that the doubts were of sufficient significance to raise serious question as to the inclusion of an item or an amount, we could take it to the President and many times we did by giving him a list of items that he would then discuss with the Secretary of Defense or the Joint Chiefs of Staff or with the National Security Council as he saw fit. He then made his final determination on the basis of all of the advice he got including not only those sources but his scientific advisers as well.

Senator JACKSON. It was in the form of suggestions. The illustration you have given would be a list of items the President might want to review with these people, but he would make the final decision.

Mr. STANS. That is exactly the point I am making. The Bureau of the Budget asked questions, made challenges of amounts, and the Secretary of Defense made the decision and the President in the final instance decided what should be included and for how much money.

Mr. TUFTS. In your testimony before the Senate Preparedness Committee, I think you used the term "dollar tag" as a way of differentiating budgetary ceilings from budgetary targets as a method of approaching the building of a budget.

In practice, could it be that such dollar tags appeared rather differently to the people in the military departments from the way they appeared to you? Might they have been regarded as sort of ceilings by the various services?

Mr. STANS. I think again it should be made clear that the use of the term "dollar tag" was in connection with the method of raising the budgetary questions and not as any means of fixing a ceiling or even a goal as to what should be placed in the budget for the military services.

I do not think there is any doubt that in some cases subordinate officials of the Department who were not in on the discussions that I had with the Secretary of Defense would interpret this procedure differently, and that is unfortunate, but that does not in any sense change the character of the suggestions that were made.

I think the record of the hearings of the Preparedness Committee of the Senate, which included testimony by the officials of the Department of Defense, would bear out the fact that this is the way we operated and that we did not impose ceilings as such.

Mr. TUFTS. In your judgment, then, the use of dollar tags would not have prevented the consideration of some program by the President.

Mr. STANS. Not at all. As a matter of fact, we did not even break down our suggested base figure as between the individual services. The Secretary of Defense was the one who determined the formula of analysis he was going to use and gave that formula to the individual services.

So the whole process was so designed that any program that had strong sponsorship could under any circumstances be reviewed carefully by the Secretary of Defense and by the President.

In substance, the burden was assumed by the Bureau of the Budget to challenge whether something was unnecessary or should not be included. The burden of proof was on the sponsoring agency or service to satisfy the Secretary of Defense and the President if we raised a question.

Mr. TUFTS. It would seem to me that a good deal of discussion of budget ceilings has missed an important point, namely, who has the chance to argue this case for additional programs and before whom do they argue it? There have been in recent years, for example, some people who felt that the Nation needed greater capabilities for conventional warfare. Do our procedures, in your experience, permit the advocates of such programs an opportunity to make their case to the President and to make it at a stage in the game when there is really a chance of affecting the outcome?

Mr. STANS. There isn't any doubt about that in my mind. That issue was debated a number of times in the National Security Council and in meetings with the President and elsewhere, and I am sure

that all points of view were carefully considered by President Eisenhower on a number of occasions.

Mr. TUTTS. Turning now more specifically to the Defense budget, as you know the subcommittee heard testimony from Mr. Hitch and Mr. McNeil. There was testimony to the effect that the 1960 Defense budget, at least when General Taylor was actively involved in it, did not tell us how much defense we were buying with any specific budget.

General Taylor, as you no doubt recall, recommended a so-called functional budget. My question is, did you and the Budget Bureau have any doubts about the form of the Defense budget, the way in which it was prepared, or any suggested changes you wanted from Congress with regard to the budget.

Mr. STANS. There were many discussions on the manner in which the budget was prepared and the manner in which the appropriations were made. We had discussions with the Secretary of Defense and the Assistant Secretary-Comptroller on the question of whether the Defense Department might be more effectively administered if all appropriations were made directly to the Secretary of Defense without being made to the individual services.

There were other technical discussions as to how the defense budget might be improved and modified.

There was also a discussion from time to time with Secretary McNeil and others on the so-called vertical approach to the budget, the one of dividing it along functional lines.

As I said earlier, the Bureau of the Budget made its own recalculation of the Defense budget requests in those categories. I have some idea that the Chiefs of Staff did the same thing but I am not in a position to testify as to how they went about it.

As I said earlier, without doubt the proposal that Secretary Hitch has made is a good one. I think it ought to be carried out. I think we ought to particularly see, however, that it does not involve such a tremendous amount of work that it is a duplication of all of the budget figure work every year. I think there are basically simple ways of dividing the budget into these various six or seven functional categories that Mr. Hitch outlines and I would hope that it be kept simple.

As far as the presentation to the Congress, of course, it has to be in the form that the Appropriations Committees want it. It is my understanding it is Mr. Hitch's plan to present the budget to the Congress as before but in addition to give this supplementary analysis which is, in effect, another way of looking at the same general program.

Mr. TUTTS. Have you found it useful for your purposes to divide the budget functionally? If so, might not the Congress also find it helpful in making its decisions to see what the functional breakdown would be?

Mr. STANS. I don't think there is any doubt about it. I think it would be very helpful to the Congress. I don't think using this particular approach as a supplement to the budget is going to make any easier the decisions which the Secretary of Defense and the President will have to make or the decisions that the Congress will have to make as to what amounts of money we put in to each program and which program we carry on, but I think it is an excellent idea to take the building

blocks apart and pile them in different ways to see how they look when you put them together in terms of their characteristics or their use instead of in terms of broad bookkeeping categories or by services.

Mr. TUFTS. When you pulled the defense budget together, what figures were you pulling together? Did the unified and specified commands, for example, submit specific proposals, or were the figures which you used figures which had been worked up by the military departments?

Mr. STANS. We did not get figures from the various commands. The figures we used were the figures which were in the budget requests to the Secretary of Defense by the services.

Mr. TUFTS. Do you think the plans and recommendations of the unified commands would be more helpful?

Mr. STANS. I think only time will answer that. This whole new approach raises questions as to organization. If it were determined in time that the functional analysis of the budget should be the principal way of making appropriations, then it would raise the question as to whether or not in time the organization of the Department of Defense should not proceed along similar lines.

I think it is too premature to reach any judgments in that respect but I think that the subject will have to be kept under consideration as time goes on.

Mr. TUFTS. I would now like to turn to the question of long-range projections.

I am glad that you referred to your 10-year projection in your statement. What was the purpose of this projection and does it indicate that in your judgment such projections may be useful as a part of the budgetary process?

Mr. STANS. The purpose of the projection was to carry out the belief that it was very important for the general public, for the Congress and for the President to look ahead for a somewhat longer period of time than 1 year and see what the consequences of existing legislation and existing activities of the Government agencies would be in terms of dollars.

This would be a good guide to planning ahead, to measuring relationships between revenues and expenditures in each of the years, and it would be a good indication of the extent to which new programs and new activities might be undertaken by the Government in not straining our fiscal resources.

This exercise was, I think, the first that has ever been done along this line and of course it has many of the inadequacies that a first effort has, but it does project for 1965 and again for 1970 what the expenditures of the Government might be under three different basic premises. One premise is that we would carry on on a relatively austere basis, taking care of the real needs of the country but not going into a great many of the other demands that are made for Federal Government activity.

The other extreme would be one which, in effect, projected the trends of recent years which, as you know, have been very strongly upward, and assumed that all along through this period there would be new and additional programs that would be urged upon the Federal Government and adopted by it.

The third course that was laid out was one of some compromise between the two points of view. These two points of view would give a measure of spending that we could expect by 1970 depending upon which philosophy the American people were to adopt. Under the austere program we could have for fiscal year 1970 a budget in the magnitude of \$84 billion. Under the more generous type of projection which carried on the trends of recent years our budget would be in excess of \$122 billion. In medium terms, it would be about \$97 billion.

If you assume that the normal growth of our economy would produce a gross national product of about \$750 billion by 1970, which I think is the generally accepted assumption at this time, and the tax rates were unchanged we would have an annual revenue of about \$120 billion in 1970. Under the high spending projection we would run a deficit in 1970 and we would have deficits in most of the intervening years. Under the low projection we could, I believe, take care of the basic needs of the country, and we could have substantial amounts available for debt reduction and for tax reduction in the intervening period.

The general purpose of exposing these figures is to encourage discussion of which of these courses of action we really want our Government to undertake.

Mr. TUFTS. Which of the three levels do you think is the most realistic projection?

Mr. STANS. I would find that a little hard to answer without expressing a political view and I would rather not. My personal conviction is that the lower projection would be the best for the country, as it would allow more of our national income to be spent in the area of private choice.

Mr. TUFTS. We always have to keep the revenues side and the expenditures side in mind. I was a little troubled by the fact that your study projected, chiefly, expenditures except for a few comments on revenues. I wondered whether a projection of expenditures alone might not result in a somewhat misleading impression of the Government's overall position in the future.

Mr. STANS. I would hope that it is not a misleading impression. I would concede that it is an incomplete impression. Our difficulty was that in the time we had to complete this analysis before January 20 we could not explore all of the elements related to our revenue picture. One of the things that gave us trouble was the question of how in projecting revenues we could recognize the impact of business cycles along the way or of changes in economic conditions.

Only because of the complex of items to be considered and the limited amount of time did we fail to include in this projection a revenue assumption.

We felt that the projections of the expenditures themselves were the real meat, however, of the question of trend in Government programs looking ahead and this was a significant start on some type of long-range planning, some kind of long-range thinking about the kind of Government we wanted to have by 1970.

Mr. TUFTS. Do you think the time has come when projections of this sort would be helpful to the Congress in its consideration of national policies and that such projections should be made available to the

Congress from the executive perhaps as part of the budget message or perhaps in some other way?

Mr. STANS. I would hope that this would be recognized as a very valuable tool in Congress in the consideration of its appropriations, and in consideration of its tax policies, and that stimulation of discussion generally around the country would cause people to think about what course of events they wanted the Government to enter into in the longrun future.

Mr. TUFTS. Now if I may, I would like to ask a couple of questions about the relations between the Bureau of the Budget and the Council of Economic Advisers. Did CEA play any role in the budgetary process?

Mr. STANS. Yes; very distinctly. The Council of Economic Advisers was consulted for its views on a number of individual programs, particularly in the field of housing and elsewhere. It was also consulted with respect to the economic impact of various levels of budget and it played a part in the estimates of expected revenues. We worked very closely with the Chairman of the Council of Economic Advisers throughout all of the budget process, and in the development of the budget recommendations.

Mr. TUFTS. Did CEA prepare revenue estimates on a fiscal year basis?

Mr. STANS. The revenue estimates were usually not prepared unilaterally by any one agency. Usually the procedure was for some of the economists in CEA, in the Treasury, and in the Bureau of the Budget to meet and consider the economic factors and to develop mutually agreed estimates.

Mr. TUFTS. I have often wondered why CEA used a calendar-year basis for its published reports rather than a fiscal year. This has made it difficult for the citizen to compare CEA's work with the Budget's for example. Does this indicate any reluctance on the part of CEA to become too deeply involved in the budget process?

Mr. STANS. I am sure it does not indicate that. I can only surmise, because I do not have all the facts, that the only reason the Council deals with a calendar year is because the statutory requirement is that it must submit a report early in the congressional session and the Council is able much better than the Bureau of the Budget to bring its figures and its estimates of conditions up to the end of the calendar year.

Mr. TUFTS. Do you see any opportunity for CEA to play a larger role in the budgetary process in the future than it has in the past?

Mr. STANS. I would not think that it would be necessary. There is a very close relationship between the two, there is a great frequency of contact. There is participation of the Council in many of the budgetary considerations and I think that all should be continued. I do not think offhand of any means by which that relationship could be significantly increased.

Mr. TUFTS. You said previously, in answer to another question, that the planning management function should be located in the new recommended Office of Executive Management.

As it is now organized, does this planning management function partly belong to CEA or would the President turn to this group for recommendations on such matters?

Mr. STANS. I would say the planning management was now somewhat a scattered function. The CEA dealt with some aspects of it, particularly with respect to the aspects of the Economic Report. The White House in the last few years had an office and a staff that was engaged in the planning of public works projects and water resources projects.

The staff of the White House itself dealt from time to time with longer range thinking in various fields, but there was no central focus or separate staff for the development of the longer range thinking.

Mr. TUFTS. One further question on the Bureau's relationship with the Department of Defense and other agencies of Government.

In view of the special arrangements between the Bureau and the Department of Defense, which you have described, did you have any difficulty at all in maintaining what you have called an arm's-length relationship with the Department of Defense, and is it your view that the Bureau should maintain an arm's-length relationship with the Department so that it can provide the President with a truly independent review of programs proposed by the agencies?

Mr. STANS. I think without doubt the Bureau has to have a cordial but arm's-length relationship with all of the other agencies of the Government in order to be effective. I think we had that in the Department of Defense. Certainly the number of issues we raised, the number of questions and challenges that we expressed was evidence of the fact that our people were in no way controlled in their thinking by those in the Department of Defense, and I would say the relationship was entirely at arm's length. I see no reason for it to be otherwise.

Senator JACKSON. Mr. Stans, I want to ask you a few more questions before we conclude the open session.

Did you have any staffing problems within the Bureau? Do you have any recommendations as to staff or organization? Some have suggested that there may be too much career service within the Bureau. Alluding to the question I asked earlier, that the Bureau tends to become an independent agency, independent of the President and tending to set its own policies and programs rather than carrying out his, do you think there should be more policy or schedule C appointments?

Mr. STANS. I don't feel any real need for any change in that respect. There were five of the top positions that were subject to replacement on a change in administration. I think the personnel of the Bureau at the career-service level is highly qualified, nonpolitical, and deals very objectively with the problems it is given to deal with. I think the staff of the Bureau has the capacity to change direction as the political administration is changed and as the philosophies of the different administrations change and still see that the programs inherently are sound and that their details make sense.

I would say that I think the potential turnover of five positions at the top is all that would really be necessary for a President to impose his policies and his philosophy upon the work of the Bureau.

Senator JACKSON. In other words, you feel there is sufficient flexibility and the career people in the Bureau as a whole are responsive to the requests of the President as directed by his Director of the Bureau of the Budget?

Mr. STANS. Yes; I do.

Senator JACKSON. One last question.

As you know, one of our major concerns in our study of national security is related to the problem of getting better people in Government.

Do you have any recommendations in that broad area: For instance, the problem of the conflict-of-interest laws which have deterred a lot of good people from coming to Washington; the slowness of Congress to change what many feel are archaic laws which in many respects are not relevant to the problems of today.

Mr. STANS. I would like to say two things in this area based upon my observation and experience. First, I think the conflict-of-interest laws are too severe. There ought to be some way in which a man of character and integrity can take a Government position without having to sacrifice financially to such an extreme as many people have had to in recent years.

Secondly, I think that the pay schedule for executives and for people of the upper levels in Government, including the career service, are entirely too low. Studies which we made in the Bureau of the Budget indicated that in the lower levels of employment, many of the people in Government service were actually overpaid in relation to what they could earn in industry. In the upper levels, in the policymaking and decision levels, Government people are very frequently underpaid.

I think it would be unfortunate if the Government managed to acquire the very best of the lower level people and the very worst of the upper level people because of its pay structure, and this definitely should be modified by the Congress.

Senator JACKSON. Actually the amount of money that you would have to invest in this area is relatively small in the higher brackets, so to speak. Is this not correct?

Mr. STANS. It is really insignificant in relation to the overall problem.

Senator JACKSON. The bulk of the overall personnel costs are in the lower pay categories.

Mr. STANS. I would think raising the pay of 5,000 or 10,000 people of the 21½ million people in Government would go a long way toward rectifying the inadequacies of our pay structure and would cost a relatively small amount of money.

Senator JACKSON. Roger Jones testified before our committee last year, Mr. Mansfield reminds me, that expenditure of \$20 million for key executive positions would quite adequately meet the basic need for salary adjustments.

Mr. STANS. I would have no way of checking on the specific figure but it sounds quite reasonable to me. I think the business of the U.S. Government is so important, so essential to our national security, that it is just absurd that we should not be able to entice into Government the best and most capable men from all ranks of life. The way to do that is to make it unnecessary for them to assume the financial sacrifices that they have had to assume in the past.

Senator JACKSON. On behalf of the committee, Mr. Stans, we again want to express our appreciation to you for being with us today and taking time out from your busy business schedule to be here.

Senator Mundt, we will retire to executive session to take testimony from Mr. Stans that bears on the National Security Council. Under the rules that we have followed in the past this testimony is to be taken first in executive session.

Tomorrow our witness will be Mr. David Bell, the Director of the Bureau of the Budget, and we will reconvene at 10 o'clock.

(Whereupon, at this point the committee proceeded in executive session.)

THE BUDGET AND THE POLICY PROCESS

MONDAY, JULY 31, 1961

U.S. SENATE,
SUBCOMMITTEE ON NATIONAL POLICY MACHINERY,
COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

EXECUTIVE SESSION

The subcommittee met in executive session at 12:40 p.m. in room 3302, New Senate Office Building, Senator Henry M. Jackson (chairman of the subcommittee) presiding.

Present: Senators Jackson and Mundt.

Present also: J. K. Mansfield, staff director; Robert W. Tufts, chief consultant; Dorothy Fosdick and Brewster C. Denny, professional staff members, and Roderick F. Kreger, minority counsel.

Also present: Ralph W. E. Reid, accompanying Mr. Stans.

Senator JACKSON. The committee will resume its sitting. I believe, Mr. Stans, that you have some comments that relate to the National Security Council in connection with your work as head of the Bureau of the Budget. Would you go ahead in your own way.

Mr. STANS. Supplementing my statement in public session, I would like to comment on one other area: the activities and procedures of the National Security Council.

As I said in my public statement:

The question which appears to have been raised most frequently is whether our national security processes and our budget processes have been closely enough related. During my term of service as Director of the Budget, I was quite convinced that they were.

Let me now add: As you know, President Eisenhower had determined that the National Security Council should be the channel through which recommendations for national security policy should reach him for decision. At the beginning of his first term in office, President Eisenhower added the Director of the Budget to the list of officials participating in all NSC meetings. He further directed, for the first time, that all policy papers considered in the NSC be accompanied by financial appendixes in order to assure that the current and future financial implications of all policies under consideration were fully appreciated. Not only did these procedures assure that the NSC and budgetary processes were related throughout the year as activities were reviewed, but the budget requests of the major national security programs were the subject of explicit NSC consideration each year prior to finalization of the President's budget.

In view of the composition and frequency of NSC meetings, the thorough and extended discussions of program issues elsewhere at budget time, the many special meetings with the President on such

matters, and the way in which important budgetary questions were the subject of frequent discussions between the Budget Director and the heads of agencies—and at the staff level—throughout the year, I do not feel that there were any significant gaps in the relationships between national security processes and the budget process, under the procedures in effect during this period.

Senator JACKSON. Referring to your statement that the purpose of the financial appendixes was to assure that the current and future financial implications of all policies under consideration by the NSC were fully appreciated, will you tell us something about the success of the financial appendixes?

Did this device accomplish what you say was its intended purpose?

Mr. STANS. I would say that it accomplished basically the main purpose, which was to give an order of magnitude to the substance of the particular discussion and of the particular paper. It was not in any sense a budgetary commitment for the future and the President always reserved the right in the preparation of the budget to apply other considerations and adopt other figures. But it did successfully indicate the general magnitude of the problem that was under consideration.

Senator JACKSON. In what form were these programs submitted to the NSC for its consideration? I think you have emphasized the importance of precision in such discussions, if the decisions are to be meaningful. Were the programs presented in such a way as to meet this requirement?

Mr. STANS. Most of the programs presented were in the form of papers of one kind or another supplemented in many cases by slides, charts, graphs, and oral explanation by the proponent. The policy papers generally were the subject of debate wherever differences of opinion existed, and when the matter was decided by the President the policy paper became in substance an expression of his policy in the particular area involved.

Senator JACKSON. At what point in the budgetary process did the NSC give explicit consideration to our national security programs?

Mr. STANS. I would say continuously during the year. There were many subjects that came up in the National Security Council, particularly in defense, but sometimes in atomic energy and sometimes in connection with mutual security, that carried with them budgetary implications. There were many cases in which the Director of the Budget participated in the discussions either questioning or calling attention to facets of the proposals which the President then took under consideration.

The major consideration of the budget as a whole took place late in the calendar year and shortly before the budget was completed.

Senator JACKSON. Was this all in connection with discussion of what our strategy should be, both short range and long range? Was there plenty of discussion involving all the factors going into a strategy?

Mr. STANS. Yes. I will not say there was any process by which every aspect of the defense program was allocated a time and a place on the agenda but as issues came to focus in continental defense, in strategic striking forces, in civil defense, and in other areas, these were debated and discussed in the National Security Council. Where

it was possible to do so the financial implications were part of the discussion, and conclusions and decisions were reached by the President in the course of the action.

Senator JACKSON. Did you run into disputes with the services over the price tags, as set forth in financial appendixes?

Generally would there be an agreement as to what a given course of action would cost in terms of dollars?

Mr. STANS. Generally there would be agreement and only infrequently would there be disagreement as to the price tag. I would say the principal reason for this was most of the matters that came before the National Security Council had their preview in the Planning Board and the processes of the Planning Board brought together the various considerations and viewpoints on the figures as well as on the other aspects of the policies.

Senator JACKSON. When did the last administration start indicating the price tags in financial appendixes?

Mr. STANS. 1953.

Senator MUNDT. Were records kept of these National Security meetings, minutes or transcripts?

Mr. STANS. There were not actually minutes in the sense of recording all of the discussion but there were action papers in reporting the Presidential conclusions and directives. In other words, there was a written record of the President's action with respect to each subject that came before the Security Council and it not only indicated his decision on each matter but who had responsibility for carrying it out.

Senator MUNDT. Was the Budget Bureau represented adequately there or would you be there alone or would you have your specialists in the particular field that was being discussed?

Mr. STANS. The Budget Bureau had dual representation in the sense that it had a regular member on the Planning Board who participated in all of the discussions and the Director appeared in the National Security Council.

I can think of only one or two occasions on which anyone else accompanied me to a discussion at the National Security Council and that may have been an occasion when some special knowledge was required.

Senator MUNDT. But the procedure provided if you needed technical help you could have it at your elbow.

Mr. STANS. That is right, provided it was cleared in advance.

Senator MUNDT. However, in the budget process as you described it this morning, if General Taylor, to wit, felt his considerations had not received the necessary considerations, he had the necessary openings to the White House in which to make his appeal?

Mr. STANS. The Chiefs of the services and the Secretaries of the service departments had access to the President at any time. I am sure that they availed themselves of that access whenever they were unhappy about any course of events.

Senator MUNDT. In the procedure in the mechanism for consideration there would be no conceivable way that General Taylor or any other Chief would be denied the right to plead his case directly to the last court of appeals, which would be the President.

Mr. STANS. No, and I heard him plead his case on one or more subjects at times in the highest councils of the Government and at the informal meetings with the President.

Senator JACKSON. Are there any further questions?

Again, thank you very much, Mr. Stans. We are very grateful to you for helping us out in the study that we are trying to make.

Mr. STANS. Thank you for your consideration.

(The subcommittee was adjourned, to reconvene at 10 a.m., Tuesday, August 1.)

THE BUDGET AND THE POLICY PROCESS

TUESDAY, AUGUST 1, 1961

U.S. SENATE,
SUBCOMMITTEE ON NATIONAL POLICY MACHINERY,
COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room 3302, New Senate Office Building, Senator Henry M. Jackson (chairman of the subcommittee) presiding.

Present: Senators Jackson, Humphrey, Muskie, Mundt, and Javits.
Present also: Senator Stennis.

Staff members present: J. K. Mansfield, staff director; Robert W. Tufts, chief consultant; Dorothy Fosdick and Brewster C. Denny, professional staff members; and Roderick F. Kreger, minority counsel.

Senator JACKSON. The committee will come to order.

The subcommittee is continuing today a series of hearings on the budget and the national security process.

This problem represents one aspect of the subcommittee's overall task. That task is to study how our Government can effectively organize and staff itself to meet the dangerous challenge of world communism.

The budget is decisionmaking in its most fundamental sense, the commitment of the resources with which words will be translated into deeds. The budget is also a prime instrument for following through on decisions, for coordinating and overseeing the execution of policy.

Yesterday we had the benefit of testimony from Mr. Maurice Stans, Director of the Bureau of the Budget under the Eisenhower administration from 1958 to 1961.

This morning we are fortunate to have with us Mr. David Bell, Director of the Bureau of the Budget. Prior to this appointment he was secretary of the Graduate School of Public Administration at Harvard University, and in that capacity served as the chief administrative officer of the school.

Mr. Bell has had a distinguished and successful career in Government. In fact, he now heads the agency in which he began his Government service. He first joined the Bureau of the Budget staff in February 1942, subsequently went into the U.S. Marines, and worked in key posts in the Bureau and in the White House.

He served as administrative assistant to President Truman from December 1951 to January 1953.

Mr. Bell, I take great pleasure in welcoming you here this morning, and we welcome your statement.

Before I do that, I want to give a special welcome to Senator Stennis, who is here because of his great interest in the broad area of na-

tional security and, of course, is a member of the Appropriations Committee, member of the Armed Services Committee, Chairman of the Preparedness Subcommittee, and member of the Space Committee, all dealing with the troublesome problems in this area.

We are glad that you could join us.

Senator STENNIS. Thank you, Senator Jackson.

Senator JACKSON. Mr. Bell, I believe you have a prepared statement?

STATEMENT OF HON. DAVID E. BELL, DIRECTOR, BUREAU OF THE BUDGET

Mr. BELL. Yes, sir; I do, Mr. Chairman.

Mr. Chairman and members of the subcommittee, I am very glad to appear before you today. The series of impressive reports which came from the hearings conducted by this subcommittee last year has been of considerable interest to those of us concerned with establishing the pattern of management and operation of the new administration. We will look forward with interest to any report that may come from your present hearings.

You have asked me to discuss with you the role of the budgetary process in national security policymaking and execution, particularly as it appears from the viewpoint of the Bureau of the Budget. I should like to place before you three or four ideas which seem relevant to your inquiry, and then I shall be glad to respond to any questions you may have.

Let me begin with two preliminary observations.

First, let me remind you very briefly of the basic origin and meaning of the Federal budget system. Speaking broadly, the Federal budget as we know it today, is the product of a statute enacted by the Congress 40 years ago at the crest of a movement to reform obsolete fiscal procedures. The Budget and Accounting Act of 1921 included two major reforms which remain the basic foundations of the system today: one was the requirement that only the President (not his Cabinet officers or agency heads) may transmit a request for funds to the Congress; the other was the requirement that the President must transmit annually to the Congress a complete budget, showing all his proposals for spending and for raising the funds to support that spending.

These two reforms were of great significance. They gave to the President—and give him today—a major means for unifying and setting forth an overall executive branch program and they give him a major responsibility for evolving a Federal budget that reflects his judgment of the relative priority of different Federal activities. Thus, the President's budget necessarily reflects his policy judgments, and the Congress in acting on the President's budget necessarily reviews those policy judgments as to the relative importance of alternative uses of national resources.

Thus the essential idea of the budget process is to permit a systematic consideration of our Government's program requirements in the light of available resources; to identify marginal choices and the judgment factors that bear upon them; to balance competing requirements against each other; and, finally, to enable the President to decide upon priorities and present them to the Congress in the form of a

coherent work program and financial plan. The budget operates as an extremely effective element of discipline on the President and the executive branch because it requires that each proposed use of resources—for defense, science, natural resources, or whatever—be tested against others and against the total size of the budget.

In passing, I might add that it seems to me the Congress, because it considers budgetary matters for the most part in fragmented form, does not face quite the same necessity to consider the effect of separate budgetary actions in relation to each other and to the entire budget. The Congress might well seek methods that would assist it in giving a more sharply focused consideration of such matters.

My second preliminary observation is that budgeting for national security is a most complex matter, because the national security itself involves so many factors. Our security plainly depends in large part on our own military strength—and planning and budgeting for military strength is difficult in a time of rapid changes in weapons technology. But in addition to our own military strength, our national security depends in part on the military capability of our allies, which requires combined international planning and, where military assistance is involved, our budgeting process must consider the relative importance of our direct military outlays and of indirect outlays through military aid.

Over and above military outlays, budgeting for national security requires us to consider the addition to our security that may be made by contributing to the economic and social development of other countries through foreign economic aid. And, finally, budgeting for national security requires us to consider the underlying strength of our national economy—the requirements of economic stability and growth, and of the skill, education, and morale of our people.

It is plain that considering the national security in this broad sense requires the President—and the Congress—to make a difficult series of choices, for which we do not have a satisfactory set of criteria. How do we weigh the value, for example, in terms of our national security, of a marginal outlay for military force as against a marginal outlay for basic scientific research, or for strengthening higher education? Difficult as such questions may be, they are real choices; they affect our national security in a true sense, and we have to make them as best we can.

Against this background of these conceptions of the budget process, I should like to suggest three lines of improvement in our budgeting for national security:

The first is to make sure that budgeting and planning are in step. Logically, budgeting and planning are two sides of the same coin, two aspects of the same process. A budget is the financial expression of a plan.

However, on some occasions in the past, it has been possible for budgets and plans to be established on different bases; that is, there might be an "approved plan" to have certain forces in being, and simultaneously a budget providing for a different level of forces.

We intend in this administration to make sure that we plan to do only what we are willing to budget for—and to budget fully for what we plan. To accomplish this requires an appropriate interlocking between budgeting and planning at each step. This begins in the de-

partments—and I call your attention to the fact that Assistant Secretary of Defense Hitch, testifying here last week, constantly referred to the “planning-programing-budgeting process” in the Department of Defense. In Secretary McNamara’s mind, budgeting and planning are regarded, as they should be, as two aspects of the same process.

A similar objective guides the work of the Bureau of the Budget and the other units of the Executive Office of the President and the White House Office. All of us are endeavoring to tie budgeting and planning tightly together in the work that precedes Presidential decisions. We in the Bureau have established close working relationships with the Special Counsel to the President, the Special Assistant to the President for National Security Affairs, the Special Assistant to the President for Science and Technology, and others who advise the President in reaching decisions on national security policy. We have also strengthened our working relationships with the Secretary of the Treasury and the Council of Economic Advisers, in an attempt to make sure that our economic and budget policies are fully consistent, and that our budget and fiscal policies will contribute to the strength and vitality of our economy, both in the long and in the short run.

A second avenue of improvement in the process of budgeting for national security is to extend our time horizon farther into the future. I need say little about this objective so far as the Department of Defense is concerned, as Assistant Secretary Hitch discussed it thoroughly last week. You will recall that it is Secretary McNamara’s intention to prepare and keep up to date at all times, a fully worked out plan and budget for defense programs extending 5 years into the future.

I am not sure we can reach very soon the same goal with respect to other aspects of national security activities aside from the military programs, but this is clearly the correct direction to move. In national security budgeting, and indeed in budgeting for all purposes, we must work with longer range periods than the single year which used to be our standard. I am pleased here to acknowledge the very useful groundwork laid by my predecessor, Mr. Stans, in the closing period of the Eisenhower administration. Among other steps in the direction of longer range budgeting, Mr. Stans, last fall, directed the Bureau staff in preparing a 10-year projection of the Federal budget for the period 1960 to 1970, which was most informative.

The fact that we want to move toward longer range budgeting, however, does not mean that we can do so easily. While some Federal agencies—such as the Federal Aviation Agency—are accustomed to thinking several years ahead, others are not, and it will take some time before we can obtain fully useful long-range projections from all agencies.

However, even our initial steps in recent months to extend the budgetary time horizon have, in my opinion, paid dividends in permitting us to understand better the issues that will determine the size and nature of the budget in future years.

Our purpose here is to improve our leadtime for recognizing important developments in our public policies and for organizing ourselves to find solutions. Whether these issues relate to outer space, housing, education, transportation, urban affairs, science, defense, or

whatever, we hope to be able, through this approach, to detect them sooner and meet them more adequately and with a better sense of priorities.

I should like in closing to point to a third avenue of improvement in budgeting for national security—an avenue on which we have, I think, still far to go. Our budget for national security must reflect and can only be as good as our strategy for national security; and I think everyone would agree that the United States has much to do to develop a fully satisfactory strategy for our security. What is the proper mix of military and nonmilitary measures? How can we guide the inevitable processes of change in Asia, Africa, and Latin America to produce free institutions and not communism? How can we step up the rate of economic growth? On these, and many other issues affecting our national security, our budgeting can only be as good as our underlying strategy. Much of what is needed is quite beyond budgetary consideration, and improvement must come from analysis of our situation in the world, and imaginative thinking about the courses of action that are open to us.

In at least two respects, however, we can, I think, point to progress through the budget planning route. One of these is the development, described by Assistant Secretary Hitch, of the so-called program packages in Defense Department budgeting. This process of functional budgeting, under which the expenditures for strategic warfare are grouped together, as are those for conventional war, and so forth, permits more accurate comparative analysis of alternative possibilities, and a more realistic understanding of what is proposed to be done. So far as military planning and budgeting are concerned, we believe that this will represent a considerable step forward over the older method of grouping expenditures by service—Army, Navy, Air Force—or expenditure category—personnel, procurement, research and development, et cetera.

A second step forward is the decision which underlies the administration's approach to the foreign aid program, namely, to build our economic and military aid efforts around "country programs." This permits us to consider in proper relation to each other, the various alternative military and economic measures we can take to assist a given country and moreover to relate our aid appropriately to the country's own efforts, to our political objectives in the country, to our diplomatic and information efforts, and so on.

Thus, I believe the use of "program packages" in defense budgeting, and "country programs" in foreign aid budgeting, represent major advances toward sensible planning and budgeting for national security.

I do not wish, however, to minimize the basic difficulty of the problem. When we face the hard questions of how much of the Nation's resources we should devote to national security, and what is the optimum combination of activities to which to devote them, we cannot avoid a considerable degree of uncertainty and considerable room for differences of judgment. We have much to do to improve our understanding of these matters and the analytical framework of ideas which assists us in dealing with them. Any light your subcommittee can shed on these complex and difficult problems will be most helpful.

I shall be glad to answer any questions, Mr. Chairman.

Senator JACKSON. Thank you for your helpful and very fine statement, Mr. Bell.

I know that Senator Stennis has another meeting to go to. I thought maybe, Senator Stennis, you might have some questions you would like to ask Mr. Bell.

Senator STENNIS. Mr. Chairman, I thank you. I do not know that I have any particular questions except that I certainly am impressed with the fact that you and your subcommittee are going into this far-reaching problem in an effort to get the Congress to project its thinking.

I am certainly impressed with Mr. Bell's statement here in reference to what he has found and what they are trying to do. This is a subject I am concerned about, but know little about.

The planning processes in the military, for instance; we of the Preparedness Subcommittee should know more about this. I hope we can have hearings on it after you have rounded out the picture.

Senator JACKSON. I think you would be interested in testimony that Mr. Hitch offered the committee. You will recall our problem in connection with continental air defense.

It was brought to our attention that the commanding general had really not been consulted on the budgetary requirements of his command; that although he made recommendations, actually the three services made the real decision rather than getting a budgetary picture from a functional base.

I thought you would be interested in the fact that Mr. Hitch's testimony brought out the fact that they contemplated, for example, presenting the requirements in this area in a program package, or, you might call it, a functional budget. For example, North American Air Defense.

Senator STENNIS. That is encouraging.

The Senator will recall the experience we had. After we appropriated the money to fill out this budget, one of the services withdrew a major part of that money without ever consulting the commanding general of the North American Air Defense Command, and used the money for something else.

I thought that was a new low in handling matters of this kind and it was due to the system.

Mr. BELL. A very good illustration of the advantage that is expected to flow from this new method of handling defense budgets.

Senator STENNIS. Thank you again, Mr. Chairman.

Senator JACKSON. Senator Stennis, we certainly appreciate your coming by this morning. We realize you have a defense appropriation bill markup this morning.

Mr. Bell, last year Governor Rockefeller testified at some length on the need for reorganization of the Executive Office of the President. Among other things he proposed the creation of an Office of Executive Management, of which the Budget Bureau would be a part.

President Eisenhower strongly supported this proposal in his last budget message.

Yesterday Mr. Stans also warmly endorsed the proposal.

Are you familiar with the proposal and, if so, do you have any comments as to whether it would be useful to the President in your judgment?

Mr. BELL. Mr. Chairman, this is not a matter that I have investigated fully, nor at any length.

As I understand it, there were two ideas involved in this; one was simply to change the name of the Bureau of the Budget to recognize that it is an institution that has several functions in addition to the budgeting function. This is correct, it does have other functions, as you gentlemen know.

It is the President's principal adviser on organization and management matters. It helps him to coordinate his legislative program. It has a special function in reviewing and coordinating the statistical forms that are used by different Federal agencies to make sure that they don't overlap and that the inquiries that are made of private parties are as simple and inexpensive to fulfill as possible.

Thus the Budget Bureau has a series of functions in addition to those of helping the President prepare his budget. Consequently, some people have suggested that the name of the Bureau is obsolete and that it should be termed something else.

Insofar as this is the notion, I don't think, myself, there is much to it. Perhaps I am a bit of a traditionalist, but it seems to me it is a fine name and we ought to keep it.

There is another element, however, if I understand the proposition correctly, in the notion of establishing an Office for Executive Management.

This is the notion that the President should have in effect an administrative Vice President. This idea, I am a little doubtful about, frankly. I am not sure that it fits the conception of our Federal Government.

I think the set of functions that are now combined in the Budget Bureau make a useful package and are of great assistance to any President. I believe each President over the last 20 or 30 years, and each Budget Director, would say the same thing.

To attempt somehow to upgrade this position, or perhaps to replace it with a superior position which would have a broader reach and which would somehow be more of a business manager for the Government as a whole, I doubt very much that that is the direction which would really represent progress.

The Federal Government by and large, is organized on the basis that each head of an agency should be fully responsible for its operations, for the policy, the substance of the activities that are carried on, and for the funds that are spent and for the organization and administration of that agency.

To have the responsibility thus combined and focused on the individual heads of the agency is, in my opinion, the correct way to get the best sense of responsibility and the best results in terms of effective management in each agency.

The Bureau of the Budget does provide advice to the President on the overall management and organization of the executive branch and that is very useful.

Furthermore, the Budget Bureau does perform important functions in trying to stimulate the adoption of new and better management methods.

To illustrate we have a small staff, three or four people, constantly at work in the field of automatic data processing. These are very good men; they are experts in their field. They are attempting to

advise different Federal agencies as to when it will be effective, economical, and useful to adopt automatic data processing in one form or another, and also when it would not be effective, economical, and useful. They try to teach the Federal officials to be resistant to overzealous salesmen of electronic computers and so on, as well as to advise them when such computers would, in fact, be very helpful to the Government's operations. Therefore, the Budget Bureau does perform, in a sense, an advisory role which assists the various Federal agencies. I hope that we can do more of this as time goes by.

But this is a different thing from proposing in some manner or other to establish on the President's staff an official who would somehow control the administrative side of the different Federal agencies. That conception, it seems to me, is very doubtful, and insofar as that is involved in the notion of an Office of Executive Management, then I am a little skeptical of it.

I would like to repeat, however, that I have not fully explored this notion. It has not come up in the present administration in a form that required me to go through it to the bottom, and it may be that I am arguing here with a conception which the proponents of an Office of Executive Management would not, in fact, put forward.

Senator JACKSON. I take it your position is that the departments should remain administratively independent. They report directly to the President and you act for and on behalf of the President in carrying out the overall decision that he has made.

Mr. BELL. Yes; I would say we advise the President more than we act on his behalf.

Normally we advise him during the time when he is reaching a decision. When the decision is made it is typically communicated directly to the department heads that are affected and it is their responsibility to execute it.

I think the gist of what I have said, Mr. Chairman, about the Office of Executive Management, is that it seems to me sensible, appropriate, and efficient that the head of an agency be the top manager of that agency, as well as its policymaking executive. So that I would think it a step backward to split policymaking and managerial responsibility. We have them joined now in the head of each agency; I think that is the way it should be.

Senator JACKSON. If I might turn back, Mr. Bell, to a question of budgetary guidelines. Last year, and again this year, the subcommittee heard testimony on the tangled question of the budgetary guidelines and ceiling.

Obviously, sooner or later in the budgetary process a limit should be placed on Federal spending. Will you tell us how, in your judgment, this limit should be established and when it should be introduced in the budgetary process?

Mr. BELL. Yes; I will be glad to, Mr. Chairman.

I might preface my response to your question by saying that at the present time we have begun the process that will lead to the decisions on the 1963 budget, the budget that President Kennedy will present to the Congress next January.

At the same time we do not have a fully worked out set of budgetary guidelines. Normally it would be desirable by the beginning of July to give them to the various agencies of the Government.

This is because they typically require 2 or 3 or 4 months to perform their own internal reviews and to consider the question of what they want to request of the President.

The President wants to have each agency's recommendations for the next year's budget before the end of September. Therefore, moving backward on the calendar, it would usually be desirable to have the budget guidelines out by the first of July.

This year we have not been able to do this in several important cases, notably the case of the Department of Defense, the military budget, for obvious reasons.

The administration has been engaged, since it came into office, in a very intensive, thoroughgoing review of the military commitments, risks, and capabilities of this country.

The President has sent three different supplemental recommendations to the Congress, the latest of which is before it now. Each of these represented a stage in the reevaluation of our military posture, the requirements that are upon us, and the steps we should take to meet them.

Because of the intensive and thorough nature of this review, it was not possible by the beginning of the summer to have reached even tentative and preliminary conclusions about the 1963 budget. There are studies still underway which will affect the judgments of the President.

Senator JACKSON. In other words, your first effort has been to cope with the budget for fiscal year 1962 that we are already in.

Mr. BELL. Yes, sir; that is right.

Senator JACKSON. And to meet those conditions before you could logically lay down guidelines for the budget the year following? Is that a fair summary of the situation?

Mr. BELL. That is right.

Senator JACKSON. That is what you are in the process of doing.

Mr. BELL. We are in the process of doing that. It won't be too long before we will have some fairly clear notions about the 1963 budget. We have some very tentative figures already in our minds, but these include some major elements which are not yet very clear.

Now, I say this by way of preliminary observation, to make clear not to imply that we do not have a fully worked out and definite system for producing budgetary guidelines which has been tested and in operation.

Now, let me answer your question more directly: What do we think we ought to do to prepare budgetary guidelines in a normal situation? Our thinking would run something like this: As you noted from my statement, we consider that 1 year is an inadequate budgetary time period. Consequently, we expect during each spring, to lay out projections of likely expenditures, of the potential budget receipts under existing tax laws, in the context of the international situation and the economic picture that is likely to be with us in the next several years.

We will typically use a 5-year forward period.

Against this kind of projection it should be possible for us to analyze the direction in which the budgets of the different agencies are moving, and to pick out those major issues which will affect the overall trend and level of the budget for each agency. We have been

able to do this for many agencies in the 2 or 3 months we are just now completing.

In the case of many agencies, it has worked very well indeed. We have been able to bring to the surface the major issues which will affect the trend and level of the budget for many of the large agencies of Government. As I indicated earlier, the Department of Defense, for this particular year, has had to be an exception.

Now, against a 5-year forward projection of the likely trend of the budget in relation to the economic situation that we expect might take place during that period, we would be able to put before the President the key issues that loom up in the spring with respect to the budget for the next fiscal year.

On that basis we can show him the questions that he will need to face and the nature of the decisions that he will have to make in order to establish preliminary planning guidelines for the next year's budget.

By the beginning of July, in a normal year, I would hope that the President would be able to say to his different agency heads that he expects a budget of the following character in the particular year that is coming up, and he would like then to follow certain guidelines that he would outline.

Now, the nature of those specific instructions might vary. In some cases he might very well tell them that he regards their budgets as being based primarily on the projected workload, and what he wants from them is a budget that will reflect a certain estimate of workload or and estimate of the job to be done of a certain dimension. If we are going to have an Army of a million men, then that can be translated into budget figures rather than the other way around, rather than saying to the Army, "Here is \$10 billion; how many men can you get for that?" The guideline would be typically that we foresee the need of active duty forces of such and such a size and now, Mr. Secretary of Defense, will you kindly give us a good, tight, firm budget for supporting that size military force.

Senator JACKSON. Your guidelines would tie in with your long-range national strategy?

Mr. BELL. Yes, sir.

Senator JACKSON. So that your guidelines would be an expression of agreed-upon, long-range strategy?

Mr. BELL. Yes, sir. This is exactly correct, Senator. We would hope that the strategic notion, the underlying national security strategy of the country would be reflected precisely in this budgetary thinking I have been describing.

Senator JACKSON. So that the whole budgetary process can be integrated into the national security policy process at the highest level of government?

Mr. BELL. This is our intention and our hope.

Let me say one other thing, Mr. Chairman, before completing my answer to your question.

There are cases, obviously, in which we would expect that the President would give some kind of preliminary planning dollar figure to an agency at this time of the year that I am speaking of, July 1st, or thereabouts. In such cases, however, we would not regard this, nor would the President regard this, as a ceiling in the literal sense. We would regard it as a preliminary planning figure. The agency

head would be expected to submit to the President a budget which would show what could be done for that figure, but he would also be expected to submit to the President any additions, any changes in that figure, which he regarded as necessary to carry out the agency's mission.

The President would not expect to end up with the figure that he started with. He would expect that after considering the detailed figures, the detailed budget, and the agency head's opinion of the changes that would be desirable, the President would make a different and final judgment in the fall of the year.

Now, if this system is successful, we have useful guidelines which are based on discussions with each agency and with the President in the beginning of the summer. Then the budget process in the fall should be a matter of considering the details of the submissions.

The fall would be the time when our budget examiners would be expected to ask the very firm precise questions: Why do you need 40 men in this office; why can't you get along with 37? What is the reason you need to augment your space? Why can't you do with less office space? And so on; these are very important questions in completing a budget, but they can only be asked sensibly if there is some initial understanding as to the size and scope of the effort that is to be undertaken.

Once it is clear roughly what kind of program the agency is going to have, then you can get and should get to these detailed and exact questions as to how many people are in fact necessary to execute the program, how much space, how much equipment, and so on. So that we would look at the process in the spring and early summer as essentially one of establishing—in a preliminary way, of course, and subject to revision in the fall—establishing the major scope of the expected governmental effort in the following year, and the budget process in the fall as a detailed, careful scrutiny of each proposed item of expenditure.

This is rather long winded, I am afraid, Mr. Chairman, but that is the nature of our plans.

Senator JACKSON. It is most responsive to the question and I believe you have given an excellent reply as to your approach on this.

In this connection, would you care to comment on the role of the Council of Economic Advisers and the Secretary of the Treasury, in the problem of meeting national security requirements with the available resources of the Nation, the deficiencies that might have to be met, and so on?

Mr. BELL. Yes, I shall be glad to.

The President has advice on budget and fiscal policy essentially from three different agencies and officers. He has advice from the Secretary of the Treasury, who is concerned with the revenues, the tax system, with debt management, with the foreign balance of payments of the United States, and with the overall financial situation. The Secretary of the Treasury, by tradition and experience, is the Government's chief financial officer.

Secondly, the President has advice from the Bureau of the Budget which is concerned with expenditures, and also with the overall relationship between revenues and expenditures.

Finally, since 1947 or 1946, with the passage of the Employment Act, the President has had advice from the Council of Economic

Advisers who are principally concerned with the economic situation in the country, but are necessarily concerned with the Federal Government's activities as part of the overall economy and as they affect the economic outlook for the Nation.

The three sources of advice necessarily cover many similar matters, the Secretary of the Treasury, the Director of the Budget, and the Chairman of the Council of Economic Advisers, are necessarily concerned with the overall level of the expenditures of the Government, with the question whether there should be a surplus or deficit in the particular year in question, and, therefore, the question of the overall level of taxes that should be planned for.

Consequently, it would be accurate, I think to say that the three of us, the three officials that I speak of, necessarily find themselves advising the President on similar questions, each from a different point of view, each with a different kind of staff responsibility.

Clearly the President should be served by individuals in these three offices who communicate with each other, who understand each other's point of view.

If they agree and present their judgments to the President jointly, so much the better. If they differ, then the President would want to hear how they differ and why, the extent to which they differ, and have the cases argued before him.

I think Mr. Dillon, Mr. Heller, and I all see the matter the same way.

We are in constant intercommunication. We meet frequently. When matters of overall budget, fiscal, and economic policy are considered by the President, the three of us are typically present for such discussions.

I might add another step here. We have recognized the interrelationship of our three agencies and the three functions to the extent of establishing fairly clear-cut lines of communication at staff levels so that while we don't have formal interdepartmental committees or anything like that, there are very rapid and continuous communications between our staff members as well as between ourselves.

I think these are the main points I would make in response to your question. I do not want to make it sound too procedural.

I would emphasize that the responsibilities of the Secretary of the Treasury, the Chairman of the Council of Economic Advisers, and his colleagues, and the Director of the Budget do interconnect, do relate to each other, and in consequence we are all involved in considering these major issues of how big the budget should be, whether it should be balanced, and what impact the budget is having on the economy of the country, and on our balance of payments.

Senator JACKSON. Senator Mundt.

Senator MUNDT. Thank you, Mr. Chairman.

I have had an opportunity to read your statement this morning, Mr. Bell, and I have a few questions I would like to ask you after commending you on your very interesting and informative presentation.

Senator JACKSON. I want to mention, Senator Mundt, Mr. Bell was born in a neighboring State. Jamestown, N. Dak.

Senator MUNDT. Yes, sir; I know that. Immediately it enhances him in my opinion, I assure you.

In connection with your statement that you and Mr. Hitch have both emphasized, Mr. Bell, about projects being 5 years in advance, which I think is an optimum goal, I wonder how you plan to do that in terms of anything realistic in view of the rapidly changing world in which we live.

I do not see how you can possibly anticipate what is going to happen in an age of missiles and satellites and one-man governments.

You have no power or clairvoyance to determine when Chairman Khrushchev is going to get tough in Berlin or anything else. You have to assume some realistic circumstances before you begin a 5-year plan.

MR. BELL. We have to assume a lot of things, Senator. The question of how realistic and unrealistic they are will depend, as you point out, on events as they unfold as the period goes by.

The main response I would make to you, sir, is that I don't think any of us are under the delusion that in laying out 5-year plans and budgets, 5-year projections, we are outguessing the future.

What we are doing is attempting to present, to put down in an orderly fashion, the assumptions that we are making and the proposals that seem relevant to those assumptions.

We have to recognize, as you say, that we are bound to be wrong. We cannot possibly be right.

But the feeling we have is that this is a more orderly method of procedure because it does require us to lay out our assumptions clearly, to be clear as to what it is that we are resting our judgments on.

It gives us some dimensions of the future cost of commitments that we are undertaking today, that are going to have effects over a future period of time. The missile program is a good illustration.

You are entirely correct that 5 years from now we may find ourselves building missiles which nobody has dreamed of today.

We are also, however, making commitments today which will result in the delivery of some missiles 5 years from now.

It is important to us to recognize the leadtime that is involved, the nature of the impact, and the effects of the decisions we are making today and the underlying pattern which is being made by today's decisions and assumptions.

Where will they carry us? Where will these decisions we make today carry us 5 years from now?

We are building various kinds of missiles. How many are we going to have 5 years from today? What will be the devastating power, the power of devastation that they will carry? How does that look to us in terms of the possible needs that we might have?

We must obviously allow margins for error, allow safety factors.

Nevertheless, we might conclude from an analysis of the plans we now have for missile procurement and installation, that 5 years from now we are going to have twice as many missiles as we might ever need. It might be that we will have only half as many as we might need at that time.

The process forces us to face these questions of how the strategic position of the United States might be changing.

As we think about what the Russians are doing, and what we are doing, I should say, myself, that 5 years is a relatively short period of time for which to have quite clear-cut and definite projections of what we expect to do and the costs that are associated with those activities.

I suspect that we will be trying to push that frontier forward, we will be trying to think about the problems that are going to face us, not 5 years from now, but 10 years from now, 15 years from now, as soon as we begin to learn the techniques and begin to understand better how to undertake such analysis, recognizing that each year you go forward beyond the present year, each day that we project in the future beyond today, raises the probability that we are going to be wrong.

Senator MUNDT. I think it will be an interesting fiscal exercise and I wish you well, but I am afraid it is utterly unrealistic to expect that you are going to proceed with any degree of accuracy because you are not dealing with statistical means. You are not dealing with predictable elements, either, in the area of what kind of malice develops in the mind of some Communist leader or what kind of invention the fertile mind of some American inventor will come up with.

Mr. BELL. What conclusion do you reach from that, Senator?

Senator MUNDT. I reach the conclusion that there is a danger if you tend to plan too definitely too far in advance. I think you have to have a degree of flexibility.

Mr. BELL. I agree we will have to be flexible. I think we would be kidding ourselves if we thought we were laying out blueprints for the future.

But at the same time, I believe it will be helpful to us to do as well as we can, always recognizing our fallibility.

I hope that having a longer range forward look than has been typical in the past will contribute to better decisions and more sensible understandings of our problems.

I certainly appreciate and agree with the underlying comments you are making. We cannot expect that things will turn out the way our assumptions indicate they might.

Senator MUNDT. If we lived in a more orderly world, I could see a great advantage.

Mr. BELL. I don't see how we can escape something like this even in the extremely disorderly world we do live in. We have to think in as orderly a fashion as we can about our own future problems and prospects.

Senator MUNDT. As long as it does not tend to decrease your flexibility, as long as it does not tend to decrease your thinking, I think it is all right as a fiscal exercise. You can say this is the way we wished that it would be.

Now, it is not going to be this way so this is the way it has got to be.

Mr. BELL. I am not sure whether Mr. Hitch put it this strongly last week. I think he possibly did.

I heard Secretary McNamara describe his intentions in the following terms, that he would expect to see the forward 5-year program revised monthly to reflect the changes in the situation and the changes in the decisions that have been made. So that what it represents is a forward projection of the situation as it is seen at any given point, continuously revised to reflect the differences in the situation and the differences in the decisions that we may have made.

Now, I want to make it clear that I do not expect the Federal budget as a whole to be on any such basis and I am not at all sure how soon Secretary McNamara can accomplish his objectives even for the Defense Department. But the notion of having clearly before us

the forward pattern of our own decisions and the assumptions on which they rest is, I think, the fundamental case we would make as to the usefulness of our proposals.

Senator MUNDT. I think you are tackling the toughest end of the problem. If you are going to tackle it, I certainly hope you make it as part of the projection of the Federal budget as a whole because many other elements are easier to prognosticate about than the Defense Department.

We can more easily do our water resources planning and other programs.

It would seem to me to be fruitful and useful to try to project—I think Mr. Stans suggested 10 years yesterday—as far in advance as you can as to the total receipts and expenditures, total status of the financial budget.

This is the way it looks and, of course, the whole Federal budget has to be changed, too. But the trickiest part is the part in which you work in defense because over that we have the least unilateral control.

The march of world events can change that more quickly than any other area if we assume that the State Department expenditures are tied in with national defense, which I do in this kind of world.

You mentioned earlier in your statement, and I associate myself with that hope, that Congress might be able to improve its handling of the budget so that we get less of it on a piecemeal basis and more of a rounded-out look.

Did you have in mind something such as S. 529, which I believe is before the Rules Committee of the House today.

I believe all members of our subcommittee are cosponsors of that. It was introduced by Senator McClellan. It passed the Senate in four Congresses, in the 82d by a vote of 55 to 8 and the last three times, including the present, without a dissenting vote.

That is the bill that proposes to establish a joint committee on the budget composed of members of the House and Senate Committees on Appropriations. Is that what you had in mind?

Mr. BELL. Senator, I am not really a close enough student of congressional organization and procedures so that I would risk a comment on that. I do not feel competent to suggest how you might achieve this objective.

I agree entirely that the objective is a very desirable one for the Congress to be able to look at both sides of the budget and the totals, whereas, now, the matters come up either separately connected with revenues, or separately connected with appropriations, and normally in small packages without any reference to totals.

Senator MUNDT. At least this is an effort on the part of Congress to try to grapple more effectively with the administrative problems.

Both Mr. Hitch and you placed considerable stress on the so-called functional presentation and consideration of the budget.

Mr. BELL. Yes, sir.

Senator MUNDT. That is something different than the normal procedures of the Army, Navy, and Air Force?

Mr. BELL. Yes, sir.

Senator MUNDT. I wonder if you have in mind in connection with that the reorganization of the Pentagon so that your secretarial administrators will also be arranged according to function?

Mr. BELL. These are two entirely different questions, Senator. What I have been talking about and what I understand to be the point in Mr. Hitch's testimony, was simply to provide a better method for combining and grouping together related expenditures for the purpose of analysis in budget making and in planning.

This is quite independent of the question of how the Pentagon should be organized for the greatest efficiency.

Senator MUNDT. Let us examine that, Mr. Bell.

If we are going to analyze our expenditures functionally and make the representations to Congress functionally, the Appropriations Committee is going to look to somebody to hold responsible for the carrying out of that appropriation function.

Mr. BELL. Yes.

Senator MUNDT. If it is divided, dissipated, and distributed over all the three services, it will make it more difficult for us to know what is going on instead of easier.

We are trying to do this so all of us can understand better what is going on.

One of the first essentials as we deal together, the administration and the Congress, is to have a fixation of responsibility.

You want to know who you are dealing with.

So it seems to me if this develops that ultimately you would have to have some reorganization of the Pentagon. Each of these functions would have to have somebody responsible maintaining the representation to the Appropriations Committees of the Congress. We do that.

The Air Force top man, Navy top man, we know who we are dealing with. He has a specific budget. If he cannot live within it, he comes before Congress. There is no confusion of authority.

How do you meet that challenge under your system of having the budget presented functionally, but operated on the basis of the services?

Mr. BELL. At the moment, Senator, I am sure that the budget insofar as it is in fact presented functionally, will also be presented in terms of the services.

Thus, it would be possible for the congressional committees concerned, for everyone concerned, to see the functional budget for strategic warfare, which would include Air Force missiles and Navy missiles, to give you an illustration pulled together and lined up side by side.

Also, at the same time, the budget will be presented to the Congress and presumably the Congress will, at least for some time to come, act in terms of making appropriations to the Air Force and to the Navy.

The Congress would appropriate to the Air Force for the MINUTEMAN missile, and they would appropriate to the Navy for the POLARIS missile.

At some future time I suppose it is conceivable that there might be some change in organization within the Pentagon, but this is not a necessary consequence of this method of budgeting. That would be decided on its own merits. Those questions, of course, are under consideration at all times by the Congress and by the executive branch.

Before you came in, Senator Stennis was here and commented on an experience that evidently the Congress had, a year or two back

when the budget for the North American Air Defense Command—which is a functional budget made up of pieces that are appropriated to the Navy, the Air Force, and the Army—when the commander of Norad was apparently not appropriately consulted in some change that one of the services made, even after an appropriation had been enacted.

This is the kind of problem you are citing. It is a real problem; there is no doubt about it.

All we are suggesting, however, at the moment, relates to the decision-making process on plans and budgets and it seems to me it is quite feasible to cut these matters two ways: To put them together functionally, which I think is the best method, in order to analyze and make decisions on them, and then to slice them a different way and put them together in terms of services, which is the traditional pattern of appropriations and is perfectly suitable and may well continue for quite a while; and to keep the responsibility then on the heads of the Department of the Navy and Department of the Air Force for executing plans affecting the different functional areas, but making sure that those plans are properly coordinated.

This is the nature of what we are suggesting.

Senator MUNDT. Thinking in terms of this functional breakdown as another device on which you can focus on the problem from different angles.

Mr. BELL. Yes, sir.

Senator MUNDT. I can understand and appreciate the more angles which you can focus on, the better. I was thinking in terms of what you had in mind when it comes to making representations to the Appropriations Committee.

I think it naturally follows that when you make those representations, if they are made in terms of functions, we expect some functionary at the top of the function we could hold responsible. We do this now as the budget is presented to us in terms of services.

As I understand you now, you do not intend to carry out the functional program to the extent of making your presentations to Congress that way. You intend to follow the customary procedure.

This will give you better information when it comes to answering questions at the time you ask for money.

Mr. BELL. I do not want to seem to be ducking your questions. I would assume it would be appropriate for the congressional Appropriations Committees to call before them the Commander of the North American Air Defense Command and for him to discuss his budget with them. That is a functional budget. It is made up of pieces that are appropriated to the Army, Navy, and Air Force.

Simultaneously the Appropriations Committees will be calling and hearing from the Chief of Naval Operations, the Chief of Staff of the Air Force, and the Chief of Staff of the Army, who will be justifying, in part, the same expenditures which the Chief of the North American Air Defense Command has been justifying.

In other words, I would assume that the Appropriations Committees will hear their stories from these two different angles.

Now, the appropriations pattern, I assume, will continue, at least for some time, to be one of making appropriations to the services rather than appropriations being made to the Chief of the North American

Air Defense Command. But I don't think there is any escape from having the story told in both ways and looking at it from both stand-points.

Furthermore, the overall presentation by the Secretary of Defense and his associates may very well tend to become more a functional discussion of the Defense problems of the country and how they propose to meet them, and less of a discussion in terms of the three services than it has been in the past.

Senator MUNDT. I have no opinion as to whether a change or reorganization of the Pentagon in terms of functions would be good or bad, desirable or undesirable.

Mr. BELL. I understand.

Senator MUNDT. I am simply trying to point out the practical necessities of having some relationship between the areas of jurisdiction in the Pentagon, the requests for funds and the followthrough that the committees of Congress are supposed to exercise on the expenditure of funds.

Mr. BELL. That problem is with us today, Senator, and I expect it will be with us for some time.

We do have the so-called unified commands and those officials do exist and they are supported by appropriations from two or more services and it makes for a complicated situation, but it reflects the underlying nature of the defense problem that we have and of our plans for meeting it.

Senator MUNDT. I think you use the English language rather accurately when you say our so-called unified commands. I think you were very meticulous when you used that word.

I was happy to read in your statement that the Bureau has established close working relationships with the Special Counsel to the President and Special Assistant to the President for National Security Affairs and Special Assistant to the President on Science and Technology and others that advise the President.

Yesterday the former Bureau of the Budget Director, Mr. Stans, said it was his practice to sit in in all meetings of the National Security Council.

Is that practice being followed by you?

Mr. BELL. It is being followed by the President. He has so far invited me to be present at meetings of the National Security Council.

Senator JACKSON. I want to say, Senator Mundt, we will have an executive session at the conclusion of this session to take testimony on the NSC. Under the rules we have followed in the past, we will take the testimony first in executive session.

Senator MUNDT. That leads me over to my final question, Mr. Bell.

I am a little bit disturbed about the implications of the words "country programs" coming along with the budgetary concept. Program packages, that is all right. We have been discussing it. Now we are going to talk about country programs in terms of foreign aid budgeting.

To me that opens up a Pandora's box of undesirable possibilities. I think if the word gets out that the U.S. Government, in its annual budgeting, is providing a country program for the countries we seek to help in Africa, Asia, and Latin America, those three areas, that we are not too far away from the day when, in addition to the Appropriations Committees and subcommittees, listening to delegations

from every one of our 50 States who come in for public works projects, we can anticipate we will have delegations from every one of 100 different countries:

Our country program needs a little stepping up in this area. One hydro-electric dam the Budget Bureau failed to put in, and even if it is not in the budget we want to have it added.

It seems to me this is formalizing and finalizing and perpetuating foreign aid so that you have already passed the American taxpayers and brought in the union for financial support as many as a hundred new states in the distressed areas classification to be supported.

I think it is discouraging enough to face up to the necessity, which we must, of continuing foreign aid, until we find some more effective instrument of foreign policy.

But, to make it part of the budgetary concept as a country program—I suspect there are a hundred countries which we are presently aiding in one way or another. To make it final and to make it fixed and to have it set out in that fashion just sends great big elephantine shudders up and down my spine to think about the potential costs we will run into.

What do you have to say about that?

Mr. BELL. I have two or three comments to make, Senator.

In the first place, as I understand our underlying conception, the aid program is intended to put these countries on their own feet.

The underlying effort is to assist them to establish themselves in an independently viable existence, in economic terms, in political terms, and in military terms.

Therefore, I take it whatever we do by way of budgeting should reflect and contribute to a systematic effort to help these countries get into a condition in which they can support themselves and for which foreign aid is not necessary.

We can see, we have seen in recent years, a number of countries making substantial headway in this direction.

I take it that we would agree that this is the right direction and that whatever we do should contribute to that end.

Now, the question, therefore, it would seem to me, is whether the country programing system is the best and the most effective way to achieve that end.

I would, myself, argue that it is. I would understand the country programing process to be one which insists that each country that we are going to aid consider its own resources first, consider its own capabilities, consider its own problems, and make the best plans that it can for calling on its own resources to the maximum extent, and then to indicate the extent to which it may need outside assistance. We can then consider what, if anything, we are prepared to do, along with other countries, along with the world bank and the other international agencies, to assist the country in question.

Consequently, when I speak of country programs, I conceive of country programs which start with the country's own resources and not with ours, to which our efforts become marginal, and the question is what margin of additional outside help may, in our own interest, be sensible for us to proffer in a given case.

The advantage of doing it this way, tackling the problem this way, it seems to me from what little experience I have had abroad in Asia, is that in this way, and only in this way, can one understand effectively

the appropriate relationship between what the country, itself, can do and what outsiders can and should do.

If you look only at individual projects, or if you make some other arbitrary judgment, having only a partial picture of the problem before you, it would seem to me not to be an effective way of making these decisions.

I have seen illustrations in the field in which the U.S. economic assistance and U.S. military assistance were not well integrated because they were not effectively related to a country program which included a proper consideration of the entire problem, including the scope of what the country, itself, could do.

We have simultaneously in some cases in past years—I hope this will no longer be true—we have simultaneously on the one hand, encouraged the building up of a military force which could be maintained only if the country's economy were greatly strengthened. Simultaneously we were not putting in enough economic aid to help them reach that level. So our military aid policies and economic aid policies were not tied together.

One of the advantages of a country programming process, if it works as I have indicated, is that our economic aid and our military aid can be appropriately related to each other and to the efforts of the country in question. Furthermore, it is feasible, given a sensible assessment of the country's program, to understand the relationship among the other efforts that the United States is making in a given country—the information effort, the education and training effort, and so forth. Thus, if we are expecting and hoping that a country is going to achieve a condition of satisfactory independence over a particular span of years, and that is going to require the training of a certain number of persons to take over top level administrative jobs or technical jobs, we can then compare the need with the training that is underway. We can look to see whether there should be additional training going on, through our own efforts or somebody else's.

This is the sort of idea, sir, that underlies the process that I referred to here as country programming. It would be, I think, as abhorrent to me as to you, to conceive of this as a device that would result in endlessly continuing larger and larger aid programs.

I see no reason why that should come about from what seems to me to be essentially a very useful and significant improvement in procedures.

Senator MUNDT. We already are witnesses to a continuing parade of foreign officials who come to lobby on the White House and on the State Department in connection with our aid program.

There are always a delegation of two or three in Washington for that purpose. I would hate to see that spread to the point where they are going to have to come to the Appropriations Committees of Congress. As the Mississippi Valley Association comes in or as the people come in from each of our States for projects—you have said that the aim of this program is to put the countries on their feet, the people of the countries, I presume, on their feet. That is laudable, but I wonder if, in that kind of changed concept of our foreign aid which veers it away from something which is essential to the preservation of their freedom, to something which is humanitarian and eleemosynary and wants to see underdeveloped people on their feet, if you have projected this in your 5-year slide rule as to what that would actually mean.

The world—take our own country—for over 150 years the white man has been trying to put the red man on his feet. The Indian from whom we stole this country. We have been trying to put him on his feet. There are only about 350,000 of them.

We are spending tremendous amounts of money per Indian. After 150 years we have failed almost completely to put the Indians on their feet. They are still living on reservations in miserable houses under worse conditions than most of the people are in abroad, on floors, eating dog meat on some reservations, without heat, suffering from disease.

We are spending a tremendous amount of money. We could not conceivably manufacture money fast enough in this country, Mr. Bell, by stopping all the automobile plants and starting to make dollar bills to provide at a per capita rate as much aid to underdeveloped people around the world as we are providing for the Indians.

We are spending the money, but we are not somehow or other getting the results.

This is no criticism of Democrats or Republicans. Everybody has failed to get the job done.

Now, if that becomes our goal, if we are going to assume responsibility, to underdeveloped people everywhere, to get them on their feet, to develop their countries, if foreign aid ceases to be an arm of the military, an arm of the State Department as part of the cold war conquest to defeat communism and becomes a perpetual, continuing humanitarian effort to upgrade people everywhere, what are we going to do for money?

Mr. BELL. There is no such intention, Senator. I certainly meant to imply none in my comments here.

The objective of the foreign aid program remains what it has been: to contribute to the security of this country.

Senator MUNDT. To help them get on their feet?

Mr. BELL. Exactly, to get them on their feet. That is the method. That is what needs to be done to contribute to the security of this country.

Otherwise, the general consensus is that the risk of their being taken over by communism is very high indeed. I take it that we are not in disagreement on the undesirability of such an outcome.

The purpose here, the point that I am making here is entirely a procedural one. It has nothing to do with an eleemosynary objective, of any conceived eleemosynary objective of the foreign aid program.

In fact, I could turn it around and suggest to you, sir, that if we had approached the problem of our own Indians on a basis such as is suggested here, if perhaps we now do that, as I believe is one of the suggestions that is made in a task force report on Indian affairs that has recently been made to the Secretary of the Interior, if we look at each Indian tribe on each reservation and each reservation as an area containing certain human and physical resources and try to work out a development program, a country program, if you will, for that tribe or reservation, and conceive of what they can do for themselves, what their objectives ought to be and what outside assistance might be helpful to them in the form of loans or technical advice or whatever it may be, in order to achieve specific objectives in a specific period of

time, this would be applying to the Indian problem the same kind of notion that I am suggesting we are beginning to apply in the foreign aid field.

It seems to me that is the most efficient way to achieve the results we want.

Senator MUNDT. I wish you would devote some of your abundant talents to a solution of the Indian problem. For some strange reason the President has left the office of the Commissioner of Indian Affairs open. If you have some time I wish you would assume some responsibility because we need help in that area.

Mr. BELL. He has just sent up a nomination.

Senator MUNDT. In this connection, I wonder if you have recognized that if this comes up to us on a country basis, this necessitates the fact that the congressional committees have to consider these appropriations on a country basis which I think and wisely so, the departments downtown have always resisted.

It seems to me this is an area, talking now not about Indians, but foreign aid, where your functional concept really makes more sense than a country-by-country one because if we start to hold hearings, evaluate practices, specify appropriations on a country-by-country basis for 100 foreign countries as we do for the 50 domestic States, I do not think it will be good for the program.

I think it will be a hopelessly long process; I think this is going to give—this is the danger—as soon as you set this up on any calendar accounting on a country basis, this gives a reasonable expectancy on the part of the recipient country that it is going to get this money year after year. Once a country develops an expectancy for money from Uncle Sam, there ceases to be gratitude and there ceases to be a recognition of friendship and cooperation and a feeling of good will just as soon as they get a dollar less than they had been expecting.

I do not want to get us into that area. I want to keep that in a functional area. In this area of Asia we have to spend *x* hundreds of millions of dollars to help develop the economic strength and military strength.

I do not want to get us committed to Cambodia so much, Vietnam so much, here they come down the line.

I do not want to get you in a position where you have to justify them before the Appropriations Committees, on what you call a country program.

I am afraid it is sticky business. It is going to hurt the program and I do not think that it is the kind of concept we should get around the world, that everybody has been brought in, they have been given a dollar tag.

And there is enmity among these countries, too.

Mr. BELL. That is right. The same response applies here, sir, as in our previous discussion of the military budget.

If the country programs underlie the basic planning and budgeting, it does not necessarily mean that that is the form in which the requests come to the Congress or in which the Appropriations Committees would need to consider them.

The functional appropriations would continue to be the appropriate method for the Congress to use in deciding on money to make available for this program, just as you suggest.

Senator MUNDT. I yield to Senator Humphrey.

Senator HUMPHREY. First, Mr. Chairman, I wish to commend Mr. Bell on his precise and very thoughtful statement on one of the most important problems we face—the budgetmaking process and the relationship of budgetmaking and planning.

I was interested in your comment in your opening statement, Mr. Bell. We are well aware that a number of efforts have been made by the executive branch over the years and with the cooperation at times of Congress—sometimes what the administration does not think is cooperation—as to the reorganization of the executive branch activities and agencies.

You have commented upon the importance of the integration of long-range planning with the budget procedure and then you said as follows:

In passing, I might add that it seems to me the Congress, because it considers budgetary matters for the most part in fragmented form, does not face quite the same necessity to consider the effect of separate budgetary actions in relation to each other and to the entire budget. The Congress might well seek methods that would assist it in giving a more sharply focused consideration of such matters.

Now, do you have any sharply focused suggestions?

Mr. BELL. No, sir; I don't. I am not a close student of congressional procedures and organization. I am afraid I am in the position of pointing to a problem and not having a suggested solution for it.

Senator HUMPHREY. Are you familiar with the proposal of the Joint Committee on the Budget?

Mr. BELL. This, I believe, is the same thing that Senator Mundt was asking me about. No, sir; I am not. I know about it in general, but I have not studied it closely.

Senator Humphrey. One of your predecessors, Mr. Lawton, I believe it was, in 1951, strongly endorsed this proposal.

Mr. BELL. Yes, sir; that is right. He is a fine man, I worked for him.

Senator HUMPHREY. He seemed to feel there was considerable merit in the proposal.

Mr. BELL. Mr. Lawton's opinion would be very weighty in my judgment.

Senator HUMPHREY. Has the Bureau of the Budget expressed any official attitude or official statement on S. 529, a proposal of Senator McClellan on the Joint Committee on the Budget?

Mr. BELL. I don't believe we have, Senator. I will be glad to check the point. Normally we are careful to avoid making comments on matters of congressional organization or procedure, for obvious reasons.

Senator HUMPHREY. I can understand your approach to this.

May I say that your skill indicates that not only are you an able Director of the Budget, but possibly we need you in the field of diplomacy.

Senator MUNDT. In addition to being Indian Commissioner.

Senator HUMPHREY. We have a nomination up for that now.

Mr. BELL. The expected tour of duty of Budget Directors is relatively short.

Senator HUMPHREY. You can outline some alternatives.

It seems to me that one of the great weaknesses in the budget process is on the legislative front. I imagine you are going to be hesitant to comment about this. You are a prudent man.

But one of the objectives of this subcommittee is to improve the national policymaking machinery. Of course, national policymaking is not just done by the executive branch; it is also done by the legislative branch.

I find it rather disconcerting to see a head of a department having to go from committee to committee, subcommittee to subcommittee, to discuss what is today very obviously an interrelated problem.

This is particularly true when we get into matters relating, for example, to research. We had some hearings in this same room a couple of days ago on the subject of research, both basic research and applied research, research in Department of Defense, National Science Foundation, Atomic Energy Commission, and many departments of the Government.

It seems to me somewhere along the line as we talk about budgeting being directed toward planning and planning toward budgeting, and getting the long-term look, particularly as it comes to some of our research activities, we are going to need to improve the machinery of the legislative branch.

Now, you say that is beyond your purview of responsibility, and it is in a sense, but you are a wise man in these areas and I hope sometime when we get off the record discussions you might be able to share some of your views with us because I think the biggest stumbling block to efficiency in government is right at the congressional level. I think it is right here where we utilize and consume the time and fail to integrate the many activities that are going on.

I pointed out one example here recently of where the Atomic Energy Commission, the Department of Defense, and other agencies were conducting a program relating to the improvement of means for nuclear test inspection and control and identification.

Yet we find the National Bureau of Standards as a participating agency in the Department of Commerce comes in for a little appropriation in the field of research that was an integral part of a total over-all packaged program. The trouble was they just forgot that package.

It is like perfecting the automobile and leaving out the spark plugs and saying, "Why don't you take a trip?" Everything was there except what needed to be there.

The Bureau of the Budget had done its job in this. The total program had been presented, but when it came down to Congress we had a Subcommittee on Commerce and other related activities, and another Subcommittee on Defense Expenditures, which is meeting right now, by the way, then you have another subcommittee over here on Independent Offices.

If members of these subcommittees do not happen to have remembered everything that took place in the other subcommittees of which they are a member, somebody gets left out.

Now, what do we do about that, Mr. Bell?

Mr. BELL. Senator, I do try to be prudent in these matters. I would suggest, however, one thing that occurs to me as a result of what you have said.

I think possibly the right way to approach this matter, to analyze it and try to reach a solution, is to think in terms of the needs of the Senators and their organized methods of doing work, and the House Members on the other side.

This is your problem. It is the problem of getting enough information and understanding in your mind and those of the other Senators. The problem is how to organize the procedures and the information that is available, the judgment of your staff members and the people downtown that you can draw on so that you can master these very complex problems of which you have given illustrations.

It seems to me this is the right point from which to start out, these are the right questions to be asking as you face this issue, because each Senator in the fundamental philosophy of the legislative process, each Senator and each House Member, is supposed to know enough and to have enough judgment to participate in decision-making in nearly everything that comes before him. He obviously can't be expected to know all the details about everything, but he has to master a very wide range of issues.

To see how he can do that with the problems changing all the time, with the agencies as they exist, or as they can be altered in case alteration would help meet these problems, the kind of staff assistance, the kind of information techniques that are available—this is the nature of the problem.

One step that might help might be an extension of a system which has begun to be used by the House Appropriations Committee which I think is undoubtedly very useful. I am told about this. I haven't yet been through it.

In recent years the Director of the Budget and the Secretary of the Treasury have appeared before the House Appropriations Committee for 2 or 3 days to go over the whole budget, to talk about it as an integrated whole, before the Appropriations Committee has broken up into its various subcommittees to take up the different agency budgets.

It is a small step, but it seems to me it is a significant one and illustrative of the kind of thing you are talking about, to think of getting groups of Senators together for briefings of various kinds on broader subjects than they normally are meeting to consider.

This might conceivably be useful.

Anyway, the only comment I am really trying to make is that I think the right way to take hold of this problem is to think of it as a problem of getting information and facts and ideas into the minds of the Members of the Legislature.

Senator HUMPHREY. Mr. Bell, I fully appreciate the importance of improving the budgetmaking process at the executive level. We have come a long way. The budget is the most complicated instrument of our Government and it is the most important control instrument. It actually makes policy, at least if it does not make policy—I should not say that.

Mr. BELL. It reflects policy.

Senator HUMPHREY. It reflects policy; that is correct. That is an appropriate description of it. But if it reflects policy at the executive level and there is not a comparable apparatus at the legislative level, that reflection can become very distorted.

This is what is somewhat disturbing, it seems to me, for the long pull.

Take, for example, an area in which I have been doing some work, myself, this whole matter of basic research. Everybody is for it except those whose responsibility it is.

Somewhere along the line a decision has to be arrived at as to how much money this Government is going to throw into the fields of basic research. This is not a very exciting pursuit, you know. Most people are critical of basic research.

Nevertheless it is the water table so to speak of our intellectual reservoir, of our intellectual reserve.

Now, the Bureau of the Budget very well reflects administration policy as to how much ought to go into this, but if it comes down here and it gets chopped up in little pieces, all the way along the line, one of the easiest places to show you are economy minded is to cut off \$2 million here, another \$5 million here, and \$10 million in basic research because what basic research does may not be reflected during one's term of office.

It may take 10, 15, 25 years before it demonstrates any importance whatsoever.

I feel from the legislative branch, and I say this to our worthy chairman who has done an admirable job here in looking at how we might improve the policymaking machinery of our Government, we tend to think of our Government essentially as the executive branch in fact when the legislative branch can make or break a policy and can distort the reflection.

Mr. BELL. That is right.

Senator HUMPHREY. My final point is—and this is just an observation—I am delighted that you, as an officer of this Government, come up here and unashamedly and courageously talk about planning.

I used to feel that planning had almost taken on the cloak of being an un-American activity here for a while. I suggested that we ought to take it out of the doghouse and put it into the White House.

Now, I see that they put it in the Bureau of the Budget, which is at least close to the White House, a step in between. It is very desirable.

When you project planning, Mr. Bell, I hope you won't do what I saw as a 10-year projection that was made here a couple of years ago.

I saw a 10-year projection on research and the 10-year projection showed each year they had the same amount as they had in 1960.

Now, I have a 16-year-old son that can do that. He is in his junior year.

Three and a half billion dollars in certain types of research activities, that was the amount that was scheduled from fiscal 1960 or 1961 and it was scheduled right on up through to fiscal 1970.

That of course did not take into consideration inflation, it did not take into consideration that as you develop you become more complicated. You have more sophisticated projects and instruments you are working with.

What do you do about projection? I saw your 5-year projection.

Did not President Kennedy ask you to make a 5-year projection in the field of research activities?

Mr. BELL. I think you may be thinking of oceanography.

Senator HUMPHREY. No; I am thinking about not just oceanography; there was a 10-year projection on the part of the Bureau of the Budget in 1960.

Mr. BELL. Yes, sir; that was released in January under the previous administration.

Senator HUMPHREY. That is right.

Then President Kennedy asked for that to be telescoped in a 5-year projection?

Mr. BELL. We have been working——

Senator HUMPHREY. I do not know whether you have completed it or not.

Mr. BELL. We have been working on that, but no figures have been made public so far as I know. In fact, we don't have a complete set of figures.

The defense matter is still so much under review that we do not have, we have not been able to pin them down to a firm basis.

Senator HUMPHREY. My point on this, Mr. Bell, is simply this: Do you ask separate agencies like Navy, National Science Foundation, Atomic Energy, to just give us your figures for the next 5 years, or do you have some way or means of balancing off an integrated figure after discussion or consultation so that in a sense a policy decision is arrived at, a consensus of functioning agencies rather than a sum total of the individual agency, or department requests.

Mr. BELL. Yes, sir. We attempt to do what you are describing.

I would shy away from the word consensus. I do not think we ought to rely on consensus among agencies. That may very well simply represent the least common denominator.

But obviously if research is carried on as it is in many different agencies, it is necessary to consider the interrelationships among those different research programs, to try to conceive of the appropriate total and the appropriate balance among the elements.

This, I take it, is what you are describing.

Now, one of the principal advantages that we see in this long-range forward budgeting is that it provides a means by which you can line up the activities that will be taken on, will be carried on by different agencies, and can ask the kind of questions you are talking about.

We think that this is one of the most important aspects of the Budget Bureau's work, to identify and to relate the different aspects of a problem which are underway in different agencies.

The product will be various. In every case it should be a sensible total budget in which the piece that is to be carried by the Department of Commerce and that which is to be carried by the National Science Foundation, and so on, are correctly conceived in total and in relation to each other.

It may also be that such a review will provide a special result as in the case of oceanography, when a special document was put together and the President transmitted it to the Congress, setting forth the different types of work that are underway in different Federal agencies that affect, or are related to, the overall subject of oceanography and making recommendations about them.

This, incidentally, relates to what we were talking about a few minutes ago. I am sure it will be of great benefit to the Congress to have

a summary of the oceanographic efforts that are underway in the Federal Government in one document, something that you and the others can look at and see this in one place, rather than have to dig it out from the various departmental budget submissions or what not.

So that we do indeed attempt to relate the elements correctly to each other and to try to think about the overall totals of activities which are carried on by different Federal agencies.

Sometimes, of course, it is our judgment they should not be carried on by different agencies at all, but they should be consolidated under one agency or some other reorganization should be undertaken. This is another type of product of the analysis.

Senator JACKSON. Senator Humphrey, I want to associate myself with your earlier statement about the fractionated way in which we on the Hill approach some of the problems that are presented to us from the executive branch. It seems to me that maybe some progress could be made if the executive branch would present certain proposals as a package. This would force Congress to make whatever committee changes are necessary to cope with that problem.

I dislike putting it that way, but we are a bit conservative as far as making any changes in our committee system is concerned.

The fact of the matter is that we had a military affairs committee and a naval affairs committee, corresponding with the organization of the military establishment. Then, when we set up the Department of Defense, we merged into one committee, the Armed Services Committee.

I merely make mention of this as an illustration.

This is the way it has happened historically. The executive branch makes the move, announces that they are going to, let us say, make a presentation on a functional basis—take your science problem, including the question of detection and identification of possible clandestine nuclear shots, it would be helpful if this whole problem could be presented by the executive branch for budget purposes as one package.

I do not say you can make broad functional presentations in every instance. Maybe that is not the best illustration. But where you have a broad area to cover, it would force the Congress to make the necessary committee adjustments to meet the presentation that the executive branch would make.

Senator HUMPHREY. In this space agency activity that we will run into, related activities not only on the part of the National Aeronautical and Space Agency, but on the part of older, established line agencies of the Government.

Mr. Chairman, I am going to leave. I wanted to come to hear Mr. Bell. I am sure he knows my high regard for his views.

Senator JACKSON. Thank you, Senator Humphrey.

Senator MUSKIE?

Senator MUSKIE. Thank you, Mr. Chairman.

I am sure this subject has been covered thoroughly up to this point, but I do have a few questions I would like to ask Mr. Bell.

In your opening statement, you state as follows:

The Budget and Accounting Act of 1921 included two major reforms which remain the basic foundations of the system today: One was the requirement that only the President (not his Cabinet officers or agency heads) may transmit a request for funds to the Congress—

Senator Humphrey has made the point that policymaking is a legislative function as well as an executive function.

The President, before he transmits his recommendations to the Congress, has available to him many alternative choices. Each of them, I presume, is advocated with greater or less persuasiveness by people who insist they are important.

Do you think those same alternatives ought to be made available to the Congress, advocated by the same persuasiveness and by the same advocates as they are before the President?

Mr. BELL. Senator, I think that this is a matter which is largely within the control of the Congress. They can hear as much discussion of any subject as they may wish.

The President's budget is before them, his recommendations. It is the responsibility of his officers to explain the President's recommendations, to make it plain why the President reached the conclusions that he did in the case in question.

They are also, however, quite free and expected to respond to questions on the part of committee members as to what views, if any, they may personally have, which differ from those of the President and why they may differ.

This takes place, as you know, very frequently in committee hearings. I think the point that is made here is a little different. That is to say, the comment I made in my statement about the Budget and Accounting Act of 1921 has to do more with the President's relations with his own executive branch than with the relations of the executive branch to the Congress.

Prior to 1921 it is my understanding that the various Cabinet officers and agency heads submitted to the Congress such fund requests that they considered necessary to carry forward the work of their departments. There was no such thing as a Presidential budget and the reform that was made was to require that the Cabinet officers respond to the President's instructions, so to speak, and that they come to him and that he put together his own judgment as to the overall executive branch position. The Cabinet officers, however, are not by that action disbarred from responding to questions from the Congress.

Senator MUSKIE. What I am speaking about is something different than responding to the questions. Questions might not be probative enough. To ask questions which would elicit the information is a hit-or-miss proposition. We are, sometimes, shooting in the dark.

What I am interested in knowing, and I am not advocating anything, I am asking questions—I am interested in knowing whether or not department heads or agency heads should be discouraged from advocating to the Congress a proposition which they are not successfully advocating to the President.

This could be very important in the field of national security, particularly in the field of defense.

There has been a great deal of discussion in recent years as to whether or not the Congress is kept in the dark about important policy or program recommendations in the field of the military because they were advocated to the President, rejected by the President, and thus discarded.

It is your feeling that views that are that strongly held by department heads and agency heads ought to be volunteered or at least there

ought to be an opportunity for the departments to volunteer to committees of Congress.

Mr. BELL. Senator, I am not sure that there are major instances in which the views of agency heads have not been brought forward in the kind of case you speak of. I take it that most of the Members of Congress who are interested and follow military matters closely will be aware of the issues involved in a given set of policy decisions and do not need to have any special invitation extended to the different officials of the executive branch to know where the arguments lie.

The arguments are not concealed. In our system the arguments typically are loud and clear and everybody knows what the issues are. They are debated at great length, in the Congress, in the press, and everywhere else.

We have a group of reporters who specialize in reporting on the Pentagon, as I am sure you know, and who ferret out issues, ideas, and problems, frequently at such an early stage in the consideration that it is very confusing to those who are trying to consider these matters in an orderly fashion.

So I am not sure that the premise you suggest, namely that there are any significant matters that do not come before the Congress because the President has settled them in one way rather than another, I am not sure that that premise is realistic.

Senator MUSKIE. I am not trying to establish a premise. I am trying to define a policy. You say in effect that any department or agency head who strongly disagrees with a budget recommendation of the President and the policy of this administration is free, without any fear of retribution or punishment, to present his views on that subject to a committee of Congress.

Mr. BELL. The policy of the administration is identical, so far as I am aware, with that of the previous administration and the one before that. In each case the policy has been, and is, that the members of the administration are expected to support and explain the President's position and recommendations and why they were made and what their justification is.

Beyond that they are entirely free to respond to questions about any personal views that they may have which are different from those of the President.

Senator MUSKIE. Are they free to volunteer any differing views that they may have?

Mr. BELL. So far as I am aware they are not and have not been under any administration I know about. If a man feels so strongly in his differences of view with the President that he wishes to volunteer those differences there is a perfectly obvious course open to him. He can resign and volunteer them to his heart's content. Many officials of every administration have done that.

Senator MUSKIE. Do you think, returning to the point which Senator Humphrey made so well, that Congress is part of the policy-making machinery, do you think that this is the best way, the most effective way to present to the Congress the same alternatives which are available to the President before he makes his budget recommendations?

Mr. BELL. Well, it seems to me that there are undoubtedly many improvements in procedure which are feasible.

Senator MUSKIE. This is more than procedure.

Mr. BELL. The basic response I would make is the one I have already made, namely that it seems to me that the Congress does not suffer from absence of knowledge of what the issues are, nor of skilled advocacy of different points of view.

It seems to me that the issues are clear and Congress knows what the issues are, that the matters are not hidden or smothered under this system we have today.

Therefore, it seems to me the airing of national policy issues, the participation by the Congress in deciding national policy issues, rests on quite an adequate basis of available information and points of view.

Senator MUSKIE. You say the Congress does not suffer, but at the same time you say that people who hold these points of view that may differ from the President are not allowed to volunteer their points of view. Then all that is left to the Congress is to dig these things out by questions in the dark.

Mr. BELL. Not ordinarily, Senator. You see, in most cases the President will be accepting the recommendations of his subordinates. It is the rare case, rather than the customary case, when the President overrules them.

Senator MUSKIE. The rare case may be the critical one.

Mr. BELL. Let me make my point about the general case first. Typically what the Congress is considering is the difference between the administration point of view—a view that is quite uniformly held by the President, the Cabinet officer concerned, the Bureau chief, the man in the military service—and someone on the outside who says that this is all wrong, it is an improper view. Therefore a typical argument is between those in the administration who hold that a given policy judgment is correct, and outsiders who say no, that is an incorrect assessment of what should be the national policy. In such cases, obviously the kind of issue that we have been talking about is not a problem at all.

Now then there are cases in which there are differences of view within the administration. In virtually every such case—and I would almost say in every such case except I do not like absolute phrasing—in virtually every such case the issues involved are widely known and quite thoroughly aired by individuals in and outside of Government, by Members of Congress who follow these things closely, by congressional staff members who have very close communication with the executive branch, by newspapermen who make it their business to find out where the issues lie because they are newsworthy. So that it seems to me a most extreme assumption that the Congress would, in fact, be losing anything substantial because executive branch witnesses are expected to support the President's point of view.

Remember, also, the safety valve that I indicated a few minutes ago, that if there are issues of very great significance and the man in the executive branch differs with what the President decides, there is nothing at all to bar him from resigning and speaking up on it. This is often done, but I think it is a very unusual case in which this is important or necessary to obtain a free airing of an issue.

Senator MUSKIE. You do not think that the executive branch has a positive responsibility to assure that every consideration of facts which the President considered material in his own judgment making should be made available to the Congress in its judgment-making process?

Mr. BELL. On considerations of fact certainly I would entirely agree. Every consideration of fact.

Senator MUSKIE. Judgment?

Mr. BELL. Well, judgment is a different matter, Senator. Why should the Congress care? Why would the Congress want to have before it a complete listing of every judgment, 20 layers down the hierarchy?

Senator MUSKIE. I did not say that. I asked do you think that the executive branch has a responsibility to the Congress to present to the Congress every factor in consideration which the President considered material in his own judgment making?

Mr. BELL. I am not sure quite what you are trapping me into.

Senator MUSKIE. I am not trying to trap you.

Mr. BELL. That sounds like a reasonable statement, why would that not typically be done if the President presents to the Congress every material consideration?

Senator MUSKIE. Let me finish my statement lest I be accused of trapping you. Even an argument or judgment which the President rejected may have been material. In other words, the President is in a difficult position, it seems to me, to form firm judgments unless he considers not only those arguments which ultimately support the decision that he makes but also those arguments which he rejected but which sharpened the validity of the arguments which he accepted.

Mr. BELL. Right. Typically in his presentation of the matter if he sends the matter up, or in the presentation of the matter by such of his officers as present it to the Congress, all the relevant arguments are presented. A contrary argument will be stated in order that the President's reasons can be given as to why he did not accept it. This is the normal form.

Senator MUSKIE. Can he present it as enthusiastically as the fellow who offered it in the first instance?

Mr. BELL. That is a different question. You asked whether the argument was made plain. Typically it would be made plain. The President does not have to advocate both sides of an issue with equal strength.

Senator MUSKIE. That is why I believe that both sides should have an opportunity to argue it.

Senator JACKSON. It is my understanding of course that Congress, Members of Congress, can ask a Cabinet officer or any member of the executive branch for the information that they need in connection with the justification for the rejection of project A. In other words, I think that the distinction here, as I understand it, is that it has been the view of all Presidents that Cabinet officers should not come up and volunteer to alter the President's program as made by the President.

But if a member of a committee desires certain information of the Cabinet officer, then that Cabinet officer—I am sure this has been the view of most of our Presidents—should give a forthright and candid answer to the question and make available all relevant information.

You may get into certain areas, and I am sure that Senator Muskie will agree with this, that are privileged within the executive branch. We are not talking about that I am sure.

But the point I want to make is that members of the committees can in their own way get the information out on the table and this is being done every day. Somehow the word gets out that so and so is opposed to a decision of the President and the members know the questions to ask and all of a sudden the whole story is out.

So in the long run only on rare occasions is Congress in the dark on such matters.

Senator MUSKIE. What you are saying is that this should be an arm's length relationship?

Mr. BELL. No, sir; I do not think it ought to be characterized that way. I take it that the President's business normally is to persuade Congress of a point of view, whether he is asking for an appropriation under the budget or whether he is asking for a piece of legislation.

If he is to persuade successfully he obviously has to make plain the arguments on his side of the issue and meet the arguments which may be made on the other side. Any sensible presentation which is persuasive will put before the Congress the pros and the cons and indicate why the President comes to the conclusion he does.

This, it seems to me, is not necessarily, in fact not appropriately, defined as an arm's length relationship.

Senator MUSKIE. I think you have stated your view on this very well, Mr. Bell. I do not necessarily disagree with it.

I must say as Governor it used to be disconcerting to me when department heads advocated to legislative committees points of view which I had rejected in my own deliberations. So I am kind of more on your side than against you. I did want to probe and get it on the record.

Mr. BELL. I think there is a very real issue here as to whether in fact there is any significant danger to national policymaking that lurks in this area we have been talking about.

Personally, I am persuaded, after seeing the matter quite closely during Mr. Truman's term, and again now, I have yet to see a case in which it seemed to me there was any significant problem here that was not adequately met under the system that we have.

I entirely accept the fact that occasionally it takes a resignation, as it did in Gen. Maxwell Taylor's case, in order to make plain how severe and how serious the issue was.

Senator MUSKIE. Of course you can also point out that the argument eventually was won.

Mr. BELL. In this case, yes.

Senator MUSKIE. I have two specific questions the answers to which I think ought to be on the record. As you may know, this subcommittee recommended in its last report that the administration should now consider the desirability of creating an Office of Science and Technology within the Executive Office of the President. I wondered if you have any comment on that recommendation?

Mr. BELL. We are taking it very seriously, Senator, and it is under study now.

Senator MUSKIE. I have one other question. The Bureau's special relation to the President is symbolized by the fact that the Director is not subject to Senate confirmation. How many officers of the Bureau were you able to appoint? Should the Director have a freer hand in making appointments and should more of the top professionals have a raise in pay ceilings?

Mr. BELL. There are five jobs now in the Budget Bureau. There were only two under Mr. Truman, three have been added.

The Director and the Deputy Director are Presidential appointments and change with the change in administration. Under President Eisenhower the three positions of Assistant Director were established to which men are appointed by the Director. They are schedule C jobs. Therefore the Director and Deputy Director and three Assistant Directors do change with a change in administrations.

Apart from these positions, the Bureau is entirely made up of civil service employees who have the normal protections of status and all the rest of it. I have not found this any handicap in taking charge of the Bureau. As an old Bureau staff member, myself, I may possibly be under some illusions about the competence of the staff, but it has always seemed to me, when I was on that staff, myself, and now, to be an exceptionally capable group of people who have a very high professional standard and who are fully able to perform their duties in response to the political and policy judgments of the President.

Again, of course, a civil servant obviously must have a limit. If he so thoroughly disagrees with the judgments of his superiors he may have to resign. The work of the Budget Bureau does not normally lead to any such sharp issues of conscience.

We are a technical body and we spend our time typically making critical analyses and technical judgments on budgetary issues as we have time for and staff for.

The staff does not normally participate extensively in consideration of policy issues which have a significant political coloration and, therefore, the staff work is normally of such a nature that it can be conducted without involving any consideration down the line in the staff of political questions.

The five jobs at the top of the organization seem to me adequate to recognize the differences among the parties and the political considerations that are relevant to budgetary issues.

With respect to pay, yes, we do need more high-salaried jobs to attract and particularly to hold the caliber of men we need in the top civil service jobs.

Does that meet all those questions?

Senator MUSKIE. I have another few questions to ask but I have taken considerable time.

Mr. BELL. I might just add one thing, Senator, before leaving this.

The Bureau's staff is not a body of men that stays there forever. In fact, the Bureau has traditionally been, and I am glad to say, continues to be, a training ground. Of the people who come into the Bureau, I would suppose that the great bulk by far stay there for some time, a few years perhaps, and then go on to work elsewhere in the Government. This happens at all levels. For example, under the new administration, two of the senior division chiefs have gone on to become Assistant Secretaries, one of the Army and one of the Defense Depart-

ment. They are Tom Morris and Bill Schaub. These were senior civil servants who were recognized as so capable that they were taken on at the political level in the Defense Department.

At the middle level we have lost a half dozen very able men to various agencies around town, the Space Agency, the Post Office, Commerce Department, the Housing Agency. They have gone into programing and planning and budgeting jobs because they were recognized as very able people.

Consequently, there is a considerable turnover in the Budget Bureau and, naturally, in making replacements and promotions and so on I have the opportunity to make choices among staff men within the limits that are set by the system. Now this does not mean that I am making political judgments. I do not make such judgments on the basis of the candidates' political background. In fact, I do not even know the political background of anybody in the Bureau except for the top five jobs. But it does mean that there is a considerable reshaping of staff going on at all times and, insofar as there is a difference in the point of view on the technical side, for example, the notions of long-range budgeting I was speaking about here earlier this morning, the people coming up the line in the Bureau will have an interest in this sort of thing and a competence for it. In that sense the character of the Bureau will gradually change to reflect the attitudes of different Directors over time. But this is a process that obviously takes place in any organization.

Senator MUSKIE. These people that move to other agencies are able to adjust psychologically from the habit of saying "No" to the habit of advocacy?

Mr. BELL. I would hate to have the impression on the loose that the Budget Bureau is a place that only says "No." We are concerned with the best solution to governmental problems—financial problems—and we spend a good deal of our time trying to persuade people to do things, saying "Yes" as well as "No."

Senator MUSKIE. I wanted you to make that statement. Thank you.

Senator JACKSON. Senator Javits.

Senator JAVITS. I have just one question I would like to ask. It is late.

Mr. Bell, I am very glad to see you. What do you think about the proposition that there might conceivably be an annual review with the Joint Economic Committee on the budget as there is an annual review on the President's economic message which comes essentially from his economic advisers, with a view toward giving the Congress at that stage, very early in the session, the whole panoply of judgments and choices which went into the budget in totality.

I find myself, and I know other Senators do, that you sit there and you vote "aye" or "nay" on some proposition and it is almost impossible to relate it to the totality of value judgments which went into the budget as a whole.

Sometimes it can be a very big figure. Sometimes it is small and it does not matter because there is some modest margin for error either way.

What do you think about that?

Mr. BELL. It is not a matter that I have considered at any length, Senator. I take it that it has been customary for the Budget Director to appear before the Joint Economic Committee as I appeared this

spring, not for a full-scale review of the budget but for a fairly thorough discussion of the budget totals and the major elements in it, as well as the relationship between the budget and the economic outlook.

As I mentioned in response to an earlier question, I think before you came in, I understand that there has been, in recent years, although I have not yet been through it, a procedure under which the entire House Appropriations Committee hears the Budget Director and the Secretary of the Treasury for 2 or 3 days in the kind of overall presentation of the budget which I think you probably have in mind.

I would agree that such a presentation would be very valuable one place or another or maybe more than one place for that matter. Which committee it should be I would not have any idea.

Senator JAVITS. It would hardly be your choice as to which was best.

Do you have any views on Mr. Stans' expressed opinion that planning for 5 years ahead is very sound, but not budgeting?

Mr. BELL. I believe the only difference between us is a semantic one. I noticed his comment to that effect. I suspect that what I am talking about he would agree with, namely that we should be aware at all times of where our commitments and our ideas and our proposals and our policies will take us over the next several years in a budgetary sense as well as in a physical or substantive sense.

This is a different thing from saying that we would now present to the Congress a 5-year budget and ask them to enact it into law and vote the appropriations. That is not involved in my notions of what is correct at this stage of events. Therefore I believe Mr. Stans and I probably agree in substance although we might describe our agreement in somewhat different words.

Senator JAVITS. Now I notice you rather like this idea that Mr. Hitch testified to, of budgeting—I am trying to find the exact words—

Mr. BELL. Program packages?

Senator JAVITS. Program packages, yes.

Now, do you find the same feeling in terms of the need to modernize in dealing with the capital costs of Government and the investments of Government, so-called revolving-fund ideas for business especially, or the capital-investment aspects which, in many cases, produce income? Do you feel any need in terms of what we are considering as the national policy machinery for revising our judgment by which we treat everything as an appropriation whether it adds assets, even paying assets, productive assets, or whether it is a revolving fund that comes on back, whatever the various financial connotations may be?

Mr. BELL. I feel very strongly that we need to be more aware in many respects of what we are doing through the budget process. To think of the budget as a monolithic set of appropriations is, of course, quite erroneous.

We are doing all kinds of things when we consider the budget. There are appropriations in it for current outlays. There are appropriations which will result in investment and there are appropriations which will replenish or expand revolving funds. It is not only illuminating, not only rewarding to our curiosity, it is important to our decision making that we understand what the various aspects of the budget really represent.

To this extent I am sure we would be in full accord and we are now working on a revision of the conceptions of investment and capital which are appropriate to the Federal Government. As you undoubtedly know, there is now published, each year, a special analysis in connection with the budget which attempts to put together in one place the various capital outlays which appear in the budget in other forms or in forms that are not clearly identified.

I am not sure what is going to come out of our review. I think we can surely improve the clarity with which we present the different aspects of capital investment which are represented in the budget today. Whether we should go on and try to work out some form of capital budget in the British sense is a different question. I have no opinion on that as yet.

Senator JAVITS. Thank you very much.

Senator JACKSON. Mr. Bell, the present budget, which I have here, is rather sizable. What I wanted to ask you is if you have any suggestions as to how we could make this, shall we say, more readable, more understandable, more of a portrayal of what we are trying to do at home and abroad than we have been doing in the past? Can it be more intelligible and more understandable? This is a big order and I am not asking for immediate reformation of the problem.

Mr. BELL. This is a problem very much on our mind. In addition to the large, fat volume you held up, there is this small, thin pamphlet version which has been put out over the years, called "The Federal Budget in Brief."

Neither form is sufficient. The large form, in my opinion, could stand major revision and improvement. We have some ideas along these lines which are now close to being in a form which we will want to discuss with the appropriate committees of the Congress. If they concur, we may very well want to make some significant changes.

The direction of our changes would be to endeavor to make the budget document clearer, simpler, briefer, shorter, more readable, more manageable, and of greater benefit to the Members of Congress and to others who must work with it.

At the same time as you will recognize, much of the form of the budget has been determined by past actions of the Congress and they have indicated very clearly, the committees that are concerned—certain requirements which they want us to follow.

Senator JACKSON. They indicate to you how they would like to have it presented.

Mr. BELL. Exactly. A great portion of the detail that is now in the budget is there because the committees want it there. I am not arguing about this. They surely know what it is they want.

Senator JACKSON. But sometimes we do not realize what we are doing to ourselves and to the other people who have to try to read and understand it.

Mr. BELL. So what we are trying to do is to devise improvements which will at the same time meet the requirements of the congressional committees concerned and the Members of Congress, to meet them better, to meet them more effectively, and simultaneously permit us to provide a simpler and more readable and more effective presentation of the Federal budget.

Senator JACKSON. Actually, considering the number of pages in here it is about \$80 million a page.

Mr. BELL. About a thousand pages, that is right.

Senator JACKSON. Well, I think this is certainly commendable for you to undertake this kind of job. I do not envy you. It will certainly be tremendously helpful to those of us who are not specialists in trying to get a more understandable budget.

One last question, Mr. Bell. We have been discussing this morning the relationship of the role of the Bureau of the Budget in the national security process. In the last analysis this gets down to people.

I wonder if you have any comments as to what we might do or could do to get better people in government. I am sure you agree that one of the real deficiencies that we face in many areas is our inability to encourage, obtain, and keep the type of talent that we need to have in wrestling with the enormous problems that we face.

Do you have any general thoughts in this area? First, as to salaries in the executive branch?

Mr. BELL. This is not a question I had expected. I have no prepared comments on it.

I think, the most effective means of getting good people is to have good leadership, to look for people who are competent and to give them responsibility.

I think President Kennedy has had good luck in getting able people into the administration because there is clearly a job for them to do. He wants to put them in positions of responsibility. He gives them challenges, and a challenge is, I am sure, the No. 1 consideration in getting first class people to come into Government.

However, I see no reason why they should have to come in at great financial sacrifice and many of them have had to do that. I think the matter of executive pay is a very serious matter. I think there is no doubt that it is a matter that needs to be considered. Whether the Congress will be willing to consider it in the near future or not, I cannot say.

It seems unfortunate that we pay our Cabinet officers a good deal less than the vice presidents of second level corporations. This does not seem really to reflect any adequate recognition of the relative importance of the activities involved. Yet at the same time I should think it is quite clear that Government salaries at the upper levels will never be fully competitive with those in private life in many lines.

So it is not a simple matter to decide on the appropriate scales. I think there is no doubt that at the present time the Government is having the greatest hiring difficulty in the ranges just below the top executives.

As I have indicated, Cabinet officers may well come into Government because of the challenge of the job. Good men at the number two, three, four level in the departments may be willing to hold them for a while, either having worked up from below or having come into Government from the outside, but these are typically men with family responsibilities and they cannot stay at those levels indefinitely. We are having great difficulty getting and holding top-flight scientists. As you well know, this is one of the reasons why there has been such a proliferation of these nonprofit corporations which do scientific jobs or other technical jobs for Government, and can pay salaries that are higher than those of the Classification Act in the Federal Government.

We find this true not only of scientists and engineers and technicians, but also lawyers. The Department of Justice is now asking the Congress to take all of its lawyers out from under the Classification Act.

The Congress has been making exceptions in recent years, numerous exceptions. There are hundreds of jobs now which are exempted from the Classification Act deliberately because the Congress has recognized that the regular pay scale is too low. To get the kind of people the Federal Government needs to carry out its work requires permission to pay more salaries.

I understand that in recent action the Senate Appropriations Subcommittee dealing with the National Institutes of Health and the Public Health Service has put a special provision in the bill authorizing the Public Health Service to pay up to \$25,000 for doctors and medical scientists. This is the same pay as a Cabinet officer.

The committee did it, obviously, because they felt the Public Health Service had to be able to pay this much in order to attract and hold the medical technicians that it needed, in special cases obviously, in rare cases, but nevertheless, in some.

These are all evidence, it seems to me, that the pay scale of the Federal Government is in fact in need of significant overhaul, but I repeat that I am not at all sure when the Congress will be willing to give it an appropriate reconsideration.

Senator JACKSON. At least the administration is in a position to make recommendations when called upon to do so.

Mr. BELL. We are studying the matter very intensively, yes, sir.

Senator JACKSON. Mr. Roger Jones had estimated in testimony before our committee a year ago that \$20 million would be about the cost to get the adjustment in the executive salary structure in a way that would be quite helpful. Actually the amount of money involved is rather small in comparison with the total budget.

Mr. BELL. Mr. Chairman, I think it depends on how much of a reform you want to make. My own opinion is that we need a larger reform than that, a more significant reform which would have a larger cost. If you want to revise the Classification Act to any substantial extent, especially in the upper levels, not simply the top supergrades but down to the grades 12, 13, and so on, then you begin to affect quite a large number of persons and it runs into quite a lot of money.

If you are thinking only in terms of the people under the Executive Pay Act, that is the top Federal executives, then whatever is done the bill would not be very big. If you double the salaries of the Cabinet officers, the total cost would be relatively small in terms of our national budget.

Senator JACKSON. Thank you very much, Mr. Bell. We are most grateful to you for your fine presentation this morning.

We will now, in accordance with the rules of the committee adjourn for an executive session to take testimony concerning the National Security Council.

On Monday morning at 10 o'clock the Secretary of Defense, Mr. McNamara, will be our witness.

(Whereupon, at 12:45 p.m., the subcommittee proceeded in executive session.)

(NOTE.—Mr. Bell's executive session testimony appears in volume IX of the hearings.)

The following information was obtained from a review of the files of the Department of Defense, Office of the Secretary of Defense, and the Office of the Assistant Secretary of Defense for Policy. It is being provided to you for your information and use.

I understand that in connection with the review of the files of the Department of Defense, Office of the Secretary of Defense, and the Office of the Assistant Secretary of Defense for Policy, you have been asked to provide information regarding the activities of the Department of Defense, Office of the Secretary of Defense, and the Office of the Assistant Secretary of Defense for Policy.

I am sorry that I cannot provide you with the information you requested. The information you requested is classified and is not available for release to the public. I am sorry that I cannot provide you with the information you requested.

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