THE DEFENSE BUDGET

17 October 1961

CONTENTS

Page

INTRODUCTION--Rear Admiral Rufus E. Rose, USN, Commandant, Industrial College of the Armed Forces 1

SPEAKER--Honorable Charles J. Hitch, Assistant Secretary of Defense, Comptroller 2

GENERAL DISCUSSION 15

NOTICE

This is a transcript of material presented to the resident students at the Industrial College of the Armed Forces. As such it represents the views of the author and not necessarily those of the Industrial College or the Department of Defense. Members of the College may quote it only in student reports or publications for use within the College. Other persons may not quote or extract for publication, reproduce, or otherwise copy this material without specific permission from the author and from the Commandant, ICAF in each case.

Publication No. L62-46

INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

Honorable Charles J. Hitch, Assistant Secretary of Defense (Comptroller) was born 9 January 1910 in Boonville, Missouri, and received his early education at the Kemper Military School. He received a B.A. degree from the University of Arizona in 1931, and after one year of graduate study at Harvard, went to Oxford on a Rhodes Scholarship and obtained his master's degree. During World War II, Mr. Hitch served on Mr. Averell Harriman's first lend-lease mission to London in 1941-42, and then on the War Production Board, where he assisted in the development of the Controlled Materials Plan. He was inducted into the Army in May 1943, and later assigned to the Office of Strategic Services. After his discharge as a first lieutenant, he served in 1945-46 as Chief of the Stabilization Controls Division of the Office of War Mobilization and Reconversion. He joined the Rand Corporation in 1948 as an analyst and scientific consultant, and at the time of his appointment to his present position in February 1961, was chairman of its research council, responsible for planning and directing the research of the corporation. Mr. Hitch has been active in a large number of professional organizations, having served as president of the Research Advisory Board of the Committee for Economic Development, the Executive Committee of the Universities National Bureau Committee for Economic Research, the National Security Policy Committee of the Social Science Research Council, the American Economic Association, and the Council of Economic Relations. He has written two books: "America's Economic Strength" (1941) and (with Roland N. McKean) "The Economics of Defense in the Nuclear Age" (1960). This is Mr. Hitch's second lecture at the Industrial College.

THE DEFENSE BUDGET

17 October 1961

ADMIRAL ROSE: First let me welcome by far the greatest number of visitors we have ever had for a talk. There is no question about the importance of the subject today.

There was a Congressman, you all know--unfortunately, I forget his name--who made quite a name for himself. Whenever anything was proposed, he said, "Where are you going to get the money?" So that has something to do with today's talk.

To put today's talk into perspective a little bit from our course here, our present unit of instruction has three main divisions--National Security Policy, that is, the goals that we in the Nation should strive for; the programs in support of national security, the means by which we attain these goals; and budgeting, which is how to pay the bill.

The responsibility for typing these three factors together, at least as far as the Department of Defense is concerned, rests with the Assistant Secretary of Defense, Comptroller. This is a great responsibility and one which places great demands on the time and effort of the person filling that position.

We are very fortunate to have with us today Mr. Hitch, the present incumbent in that job and that he has made his time available in his schedule to come to talk to us on the Defense Budget.

Mr. Hitch has spent many years of studying, working, and writing in the field of economics. His latest book, coauthored with Roland McKean, is "The Economics of Defense in the Nuclear Age," a book with which most of you are familiar, I am sure.

I would like to mention also that this is a return engagement for Mr. Hitch, since he was our graduation speaker for last year's Industrial College class.

It is a great pleasure to introduce the Assistant Secretary of Defense, Comptroller, Mr. Hitch.

MR. HITCH: Admiral Rose, Faculty of the Industrial College, and Gentlemen: I greatly welcome this opportunity to discuss with you the problems of budget formulation in the Defense Department. As a select group of senior officers of all branches of the Armed Forces, you will over the years have an important influence on the outcome of our efforts to enhance the usefulness and effectiveness of the planning, programing, and budgeting process in the management of the defense effort. Whether or not you agree with all of the innovations we are introducing into that process, you should have a good understanding of the objectives and reasoning behind them.

As a member of the Defense Department management team, I would like to feel that our policies and programs are accepted by the Defense organization, because they are understood rather than because they are directed from above. I would expect that you, as students of the Industrial College, will want to examine thoroughly and critically both the proposals and the reasoning.

The budget has long been the principal management tool in the Department of Defense. It was the one place where, at least once a year, all the varied programs and activities of our vast Defense Establishment were brought together at one time. It was not only the primary mechanism for the allocation of available resources but it was also the major lever used to control the execution of the program.

The Defense budget, as it has evolved since the end of World War II, was oriented, as you know, essentially along functional lines; that is, in categories like military personnel, operation and maintenance, procurement, research and development, and military construction. This in itself was a tremendous improvement over what existed at the end of the war and, in the time frame in which it was devised, had a great deal of intrinsic logic. One has only to recall that as late as 1947-48 the Navy Department had to namage its financial affairs through some 130-odd separate appropriations, ranging in size from $50 for the payment of certain claims to $1.294 billion for pay and subsistence of naval personnel. There was even a separate appropriation of $10 for the U.S. Naval Academy Museum Fund in 1947. The War Department budget looked very similar.

Although the major appropriations roughly paralleled the organization of the two departments, the large number of minor appropriations

for special purposes, such as "Laundry Service, Naval Academy," and "Apprehension of Deserts, Army," merely represented the accretion of some 150 years of history. Neither the Navy nor the War Department budget followed any functional pattern whatsoever, and they were quite dissimilar in structure. It was impossible to ascertain even how much was being spent for the day-to-day operations of the two departments as compared with the investment in capital equipment--not to speak of such basic functional categories as operation and maintenance, procurement, research and development, and so forth.

Since then, the Defense budget has been greatly simplified. The number of appropriation accounts has been sharply reduced and their structure and content made as uniform as possible, taking into account the differences in organization and missions of the three military departments. We are now asking for appropriations in only about 13 accounts each for the Army, Navy, and Air Force, and these appropriations have been grouped under five principal titles: Military Personnel, Operation and Maintenance, Procurement, Research, Development Test Evaluation, and Military Construction. A sixth title has recently been added for Civil Defense.

This reorganization and simplification of the Defense budget structure was, of course, essential to the proper management of the Defense Department. It is hard to imagine how any Secretary could have managed the financial affairs of the Defense Establishment with the old War and Navy Department types of budgets.

Much else has been done since the war, too, to bring order and discipline to the financial management function, and indeed to establish financial control over the activities of the farflung Defense Establishment. Comptroller organizations have been established throughout the departments. Basic patterns have been developed for budget, program, and activity accounts. Progress has been made toward 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.

All of these reforms are still useful and necessary, and we plan to retain them and build upon them. But there was one area in which

we believed a serious gap existed. The revolution in military technology since the end of the Second World War, 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 else of the Defense program evolves.

Yet it is precisely in this area that the financial management system showed its greatest weakness. It did not facilitate the relating 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.

Certainly we want to know the cost of military personnel, of procurement, of military construction, et cetera, for each of the military departments and for the Defense Department as a whole. But we also want to know, and indeed we must know, if we are to optimize the allocation of our resources, the cost of a B-52 wing, including its tankers, Hound Dogs, Quail, et cetera. We need to know not only the cost of equipping that wing but also the cost of operating it over its lifetime, or at least for a reasonable period of years in the future. Only then can we assess the cost-effectiveness of a B-52 wing as compared with other systems designed to perform the same or similar tasks.

Furthermore, we want to know the total cost of the forces assigned to each of the major mission areas, the cost of the general war offensive forces, of the general war defensive forces, and of the general purposes or limited war forces. As General Taylor pointed out to the Jackson committee last year:

"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, in those combinations of Army, Navy, and Air Force which are functional in nature, such as the atomic retaliatory forces, overseas deployments, continental air defense forces, limited war expeditionary forces, and the like. But the point is 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."

Now, 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 the fund appropriated in the same manner in which they were appropriated. It must provide the 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 of this is not enough. The financial management system must also provide the data needed by top efense 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 and 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 life span. 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 these terms that the major decisions have to be made.

We were well aware that the financial management system, as it had evolved over the years, could not directly produce all the required data in the form desired. When I assumed my present position last January, I hoped that we would have at least a year to smooth the way for the introduction of the programing function. However, Secretary McNamara was soon convinced that the only way in which he could intelligently formulate a Defense budget, and for that matter manage the defense effort, was in terms of major programs, programs related to weapon systems and forces. Accordingly, he decided to foreshorten my timetable and, to the extent possible, develop the 1963 Defense budget on a program basis.

This decision is entirely consistent with Secretary McNamara's management philosophy. As he told an interviewer last February:

"I think that the role of public manager is very similar to the role of a private manager. In each case he has the option of following one of two major alternative courses of action. He can either

act as a judge or a leader. In the former case, he sits and waits until subordinates bring to him problems for solution, or alternatives for choice. In the latter case, he immerses himself in the operations of the business or the governmental activity, examines the problems, the objectives, the alternate courses of action, chooses among them, and leads the organization to their accomplishment. In the one case it's a passive role; in the other case an active role. I have always believed in and endeavored to follow the active leadership role as opposed to the passive judicial role."

We realize, of course, that even at the OSD level we cannot manage all Defense Department activities solely in terms of weapon system programs. Military personnel is a good example. Pay and allowances and other benefits of military personnel are prescribed by the Congress, generally, without reference to particular assignments, but rather in terms of an overall career-development pattern. Accordingly, we have to manage our military manpower more or less in the aggregate. Nevertheless, we still must know the military personnel costs of each proposed major program so that we can take it into account in arriving at our program decisions.

Similarly, operation and maintenance activities will have to be managed in broad categories such as training, installation support, supply operations, and so forth. Nevertheless, we must know the cost of operating and maintaining each proposed weapons system. For example, the cost of operating a B-52 wing (including military personnel and O&M costs) over a five-year period, is about equal to the initial cost of procuring the aircraft. In contrast, there is every evidence that the annual O&M costs of the solid-fuel Minuteman ICBM will be much smaller in relation to its initial investment cost. Therefore, to evaluate properly the cost-effectiveness relationship of such alternative weapons systems, we have to take into full account the difference in operating cost as well as initial investment cost.

The financial management system must, of course, also support management at other levels in the Defense Establishment. Obviously, the financial data needed by a base commander to carry out his mission will differ markedly from that required by the Secretary of Defense. In providing for the needs of the Secretary of Defense we are not insensitive to the needs of management at other echelons. However, we see no insurmountable obstacles to the development of a system which can meet the requirements of management at all levels.

What we have in mind, under the new approach to Defense budgeting, is a three-phase operation: First, the planning and review of

requirements; second, the formulation and review of programs extending several years into the future; and, third, the development of the annual budget estimates.

The first phase, the planning-requirements phase, was begun in March of this year with the assignment to the Joint Chiefs of Staff, the military departments, and various elements of the Office of the Secretary of Defense of specific projects dealing with the most critical and the most difficult requirement problems. I refer here, of course, to the well-publicized list of 100-odd projects developed by the Secretary and the Deputy Secretary of Defense. One, for example, dealt with the question of how many strategic bombers and missiles we will need during the next decade to destroy priority target systems. Another involved an examination of requirements for airlift and sealift to meet various contingency war plans and the most economical means of providing for them. Another dealt with the comparative advantages and costs of (a) refurbishing existing items of ground equipment, (b) replacing them with new equipment off the assembly lines, and (c) expediting the development of still better equipment.

These were not quite requirements studies in the traditional military sense. They were military-economic studies which compared alternative ways of accomplishing national security objectives, and which tried to determine the one that accomplishes the most for a given cost or achieves a given objective at least cost. Most of these projects have been completed, at least in preliminary form, and many have provided a valuable input for our program formulation and decision.

This phase of the planning-programing-budgeting process will continue as a year-round operation and all appropriate elements of the Department will participate in their respective areas of responsibility. We also expect to be assisted in this phase by such research groups as WSEG, Rand, Operations Evaluation Group, and the Research Analysis Corporation.

The second phase, the formulation and review of programs, was started in May. General guidance was furnished to the military departments for the development and submission of the program data, but no dollar ceilings were assigned. Instead, the military departments were instructed to use as a base point the force structure projected by the Joint Staff of the Joint Chiefs of Staff, the so-called "Wheeler Forces." These force projections simply reflected the program decisions, either explicit or implicit, in the 1962 budget as amended in March and May of this year.

The departments were also asked to submit proposals for the additional forces and the new programs over and above the Wheeler Forces which in their judgment were required to support our basic national security policies. These additional forces and new programs were to be projected, wherever possible, through fiscal year 1970. The departments were particularly encouraged to submit alternative forces and programs for each of the major missions so that the Secretary of Defense would have before him the principal choices available. Finally, the departments were requested to provide the total cost of each proposed program at least through fiscal year 1967, that is, for five years in advance.

A standardized list of program elements and program packages was developed with the assistance of the military departments and the Joint Staff to serve as the general framework within which the program proposals were to be submitted. 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. Examples are B-52 wings, infantry battalions, and combatant ships, 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 have to be considered together for decision purposes because they support each other or are close substitutes for each other. The general war offensive forces is an example of such a package. The unifying principle of each package is a common mission or set purposes for the elements involved.

In developing this list 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, the general war offensive forces program package is divided into a number of categories--the aircraft forces, the land-based missile forces, the 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, Skybolt, and Quail missiles, listed separately), the B-58's and the B-47's (including the reconnaissance version of the B-47), and the tankers. Within the missile forces are Atlas, Titan, Minuteman, and Polaris, plus the Thor and Jupiter IRBM's and the submarine-launched Regulus.

Also included in the general 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 general war defensive forces is another of the more easily definable program packages supporting a clearly identifiable major military mission. Included here are the interceptor aircraft, the surface-to-air missiles, elements of the warning system, and so forth.

The third and largest program package is that for the general purpose forces. These are the forces designed to fight local or limited wars, and to engage in theater operations in general war. This package is organized broadly along service lines. Within the services the basic identifiable combat units form the program elements.

Under the Army are almost all of its regular combat units and command support elements. They range from the four basic kinds of divisions to missile groups and commands to 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, the radar warning picket ships, and the Military Sea Transportation Service ships. All of the fleet's various aircraft units are also included, except, of course, those assigned to airborne early warning.

All Marine Corps units are listed under general purpose forces, including the Marine air wings.

The Air Force general purpose forces consist principally of those units assigned to tactical air commands and to theater commands. The tactical fighters and bombers, the tactical reconnaissance aircraft, KB-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 the theater airlift,

Military Air Transportation Service, and Military Sea Transportation Service 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 have been reviewed in the appropriate mission package--general war defensive forces, general purpose forces, or sealift and airlift--as well as in the reserve package.

Program package six includes all of the Department's research and development projects that are not directly associated with program elements in other program packages. Space projects are gathered together here in a separate group.

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 support, intelligence, and higher headquarters.

I am sure that as we gain experience there will be further changes in this list and in its organization and classification. There will be the continuing task of adjusting the list to reflect changes in the forces and programs, as well as in plans, concepts, and organization. Already, we have had to fit the civil defense program elements into the general war defensive forces package.

The program packages were submitted by the military departments over a period of two months, beginning early in July. All of the reviewing agencies--the Joint Chiefs of Staff's organization, the various elements of the Office of the Secretary of Defense, and the military departments--received copies of these submissions. As the services packages were received by my office they were assembled, consolidated, and the basic program issues were analyzed. Copies of the consolidated packages, including our analysis of the major issues, were then furnished to each of the participating departments and agencies.

In the midst of the program review the system's ability to adjust to sudden changes was put to the test. Late in July President Kennedy sent to the Congress a third set of amendments to the fiscal year 1962 Defense budget, aggregating about $3.5 billion of additional programs.

Principally affected were the general purpose forces, but some changes were required in virtually all the other packages. All things considered, the adjustments were completed without too great difficulty or undue delay.

As the Joint Chiefs of Staff organization, various elements of the Office of the Secretary of Defense, and the military departments completed their reviews of the program packages, their comments and recommendations were forwarded to the Secretary for his consideration. The Secretary reviewed in great detail the program proposals made by the military departments and all the related analysis, comments, and recommendations. On the 22nd of September his tentative decisions on the program packages were forwarded to the military departments to serve as guidance for the preparation of fiscal year 1963 Defense budget and for future planning.

The program guidance is quite specific and comprehensive. For example, in the mission-oriented packages, I through IV, the guidance takes the form of a tabulation of approved forces and programs for the next five years for each of the program packages, together with explanatory notes and appropriate procurement programs for major items of equipment. The research and development guidance for program package VI is in the form of dollar amounts for each development or major project, where feasible, or for logical groups of research activities.

The third phase of the planning-programing-budgeting process is now well under way. The military departments are now preparing to submit their FY 63 budget requests to the Office of the Secretary of Defense on 23 October. To facilitate the translation of program decisions into the traditional budget format, the services had been requested in the programing phase to submit a cross-classification of the fiscal data by program element and by appropriation account for both obligational authority and expenditures. They are submitting this same cross-classification in the budget phase.

It might be worth emphasizing at this point that the programing review is not intended as a substitute for the normal budget review. Rather, it is designed to provide the Department of Defense with an approved program base for the preparation of the annual budget, as well as guidance for future planning. But the exact number of missiles, aircraft, tanks, guns, et cetera, to be funded in fiscal year 1963 still remains to be determined in the forthcoming budget review phase. Detailed shopping lists, production schedules, leadtimes,

activity rates, personnel grade structures, prices, the status of funding, and all the other facets involved in the preparation of a Defense budget have yet to be scrutinized in the budget review process.

No doubt further adjustment and refinement will be made in the programs during the course of the budget review. In fact, Secretary McNamara, in transmitting the program guidance to the military departments, made it perfectly clear that he wishes to discuss further with the Service Secretaries and the Chiefs some of the program areas which he feels had not received all the attention they deserved. He intends to continue these discussions until the final FY 1963 budget decisions are made at the end of November.

The Bureau of the Budget, as in past years, will participate in this budget review at the OSD level. In the case of every other department of the Government, the review by the department and the Bureau of the Budget occur in sequence. For a number of years now there has been a joint DOD-Bureau of the Budget review of the Defense budget, and this will be the case again this year. The Defense Department's budget request for the coming fiscal year will then be prepared in the usual form for submission to the President and, finally, to the Congress.

Although we have yet to complete the budget phase of the planning-programing-budgeting process, I believe it is not too early to draw some preliminary conclusions from our experience thus far. Considering the newness of the procedure and the limited time available, the program submissions by the military departments were surprisingly complete and thorough. Taken together, the service submissions constitute the most comprehensive body of data bearing on the Defense program that has ever been assembled.

Admittedly, much of the cost data submitted left a good deal to be desired, but it was good enough to enable the Secretary of Defense to get a rough feel for the long-term financial implications of his program decisions, and, despite many shortcomings in the program data, the Secretary was able to develop for the first time a set of approved Department of Defense programs projected five years into the future. Whether or not the services agree with these decisions, the specific and comprehensive nature of the guidance furnished will greatly assist in the preparation of the FY 1963 budget submissions as well as in their future planning. That, of course, is one of the principal purposes of the programing phase.

The programing phase, as we had hoped, was truly a team effort. All elements of the Defense Establishment made valuable contributions to the Secretary's review. There is now no question in our minds that the programing approach to Defense budget preparation is both feasible and useful. It has worked even under the most trying circumstances, with the change in administration, the three successive amendments to the 1962 budget, and the emergency measures necessitated by the Berlin crisis.

But there are a number of areas in which improvements can and should be made. The data submitted on the obligational authority required and on the expenditure estimates for the program elements were not good enough. The basic problem lies in the fact that good cost information simply is not available for many of the program elements. Our knowledge and techniques of cost estimating have to be expanded and sharpened, and this is one of the areas that we will be exploring much more thoroughly during the next several months.

Second, we have yet to achieve full uniformity in the service submissions. For example, one service prorates medical costs among the mission elements; another throws all medical costs into servicewide support, and the third does it partly one way and partly the other.

Third, much more work has to be done on the analysis of military effectiveness. The services, in their submissions, had a tendency to substitute a description of a weapon system for an evaluation of its military effectiveness in terms of the mission it is designed to perform. Admittedly, this is a very difficult area for analysis, but it is one which has to be mastered if program decisions are to be made on the basis of cost and effectiveness.

Fourth, we have to develop a good procedure which will permit us to make prompt program adjustments in response to changes in the international situation, in technology, and in requirements at any time during the planning-programing-budgeting cycle.

Fifth, in some areas, we have yet to identify precisely the central decisions required and the arrangement of program elements needed to guide such decisions properly. This is particularly true of the general purpose forces and of servicewide support. On the other hand, the general war offensive forces and the general war defensive forces offer no particular problem in this regard, nor does sealift and airlift.

Finally, there is room for improvement in the review procedure, particularly the Secretary's review. The problem here is simply one of time, the Secretary's time. I can assure you that Secretary McNamara did his homework on the written submissions and comments, but would have liked to discuss his decisions more thoroughly and in greater detail with his principal military and civilian advisers. Unfortunately, the Berlin crisis made unusual demands on his time, just at the time of program review. Next year we hope to extend the time of the Secretary's review. There is no reason why all program reviews have to be concentrated in the two months preceding the budget call. There was good reason for that this year because we were starting from scratch and had to develop a program for the first time, but in another year we see no reason. Indeed, we plan to make the programing phase, as well as the planning-requirements phase, an all-year-round affair, studying, reviewing, and adjusting program details as new knowledge becomes available.

I believe that the program formulation and review phase is well in hand, but we have yet to deal with the problem of program execution and followup. As I noted earlier, the Secretary wants to manage identifiable program elements, particularly the major weapon systems, as program entities and not in bits and pieces financed in various appropriation accounts. Obviously, we must continue to account for the use of funds in terms of appropriations. So, too, we must know the cost of resources consumed by activities within the appropriations and at various levels of command. But we must also know how our programs are progressing, both in physical terms and in financial terms.

How to devise a financial management system which can satisfactorily meet all of these varied requirements is the problem now before us. As a first step toward an eventual solution, we have undertaken a special study, to be completed by the end of this year, of all the accounting, information, and reporting systems of the Department of Defense. A steering group, composed of senior representatives from my office and from each of the military departments, has been established to provide overall guidance for the study and to review the findings. The detailed investigations are being conducted by a number of study teams composed of representatives of the military departments and OSD and supported by outside specialists. Each military department has appointed a full-time senior official to help guide the work within his department. The task will not be easy but, when this study is completed, we should have a much better idea of what can be done.

Gentlemen, I hope in stressing the new approach to the planning-programing-budgeting process, I have not left the impression that this in itself will make the hard decisions easy, or the complex problem of formulating the national defense program simple. What these innovations 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 policy and program choices we make. They will permit us, in a shorter time and with greater accuracy, to cost out the various alternatives available to us so that we can develop a program which provides the greatest amount of defense for the resources consumed.

This should be our objective in any case, but it is particularly important now when defense expenditures are rising at a rate of more than $3 billion a year. True economy does not mean scrimping on essentials. It means making the most efficient use of the resources available, eliminating waste and nonessentials, and discarding expensive programs that contribute only marginally to our strength.

This is the kind of economy which requires hard work and hard thinking and often the adoption of unpopular courses of action. But it is the kind of economy which Secretary McNamara has already emphatically demonstrated he intends to practice.

Thank you.

CAPTAIN MURRAY: Secretary Hitch is ready for your questions, gentlemen.

QUESTION: Sir, could you tell us what factors of effectiveness were available to the Secretary when he considered the general purpose war?

MR. HITCH: This is an area in which he didn't have very much help. I remarked, I think, that there was a tendency for the services, in their submissions, to describe weapons systems and combat units rather than to analyze their effectivenss, and this was perhaps most true of the general purpose forces. There were particular analyses of effectiveness which were useful in making particular choices. For example, in comparing the effectiveness of nuclear-powered ships versus conventionally powered ships, there were various measures of effectiveness that were quite useful to him in deciding which way to go on that one. In some other cases we did have available useful measures of effectiveness, useful that is, in a limited sense. They

did not give a complete measure of military worth. That I am sure we will never get in the case of "general purpose forces," but there are many things that can be done by way of analysis to improve decision-making within that area. Some of them were done in this review.

QUESTION: I have heard several references to the objectives outlined in the basic national security policy. Is this a new paper, or is this the same NSC policy paper?

MR. HITCH: This was an NSC policy paper.

STUDENT: It is still in effect, then?

MR. HITCH: I haven't taken a recent reading on this one, and I don't know just where it stands at the moment. My recollection is that, when we sent out the initial request for program submissions in May, or perhaps it was in April, we expected this paper to go through the various coordinating agencies and be approved at an early date. In fact it made very slow progress. I am not sure whether it has gone through them yet or not. But this was a reference to the basic NSC paper.

QUESTION: The kind of cost allocations from source to user that you are talking about will require substantial increases in ADP capability--data-processing equipment. In the past, in terms of data-processing requirements to your office have been most difficult. Can we presume that your additional requirements will be supported by a more reasonable or a different approach?

MR. HITCH: If your justifications merit it.

QUESTION: In the future management of the Department of Defense, do you foresee a position for the three separate military departments as distinguished from the four military services?

MR. HITCH: I am very happy to say that my office does not have responsibility for organizational questions in the Department of Defense. I think from the point of view of programing and budgeting it doesn't make any difference to us whether it's three departments or four services. In general I think that the kind of programing activity and review that I have been talking about can be carried out with a very wide range of different sorts of organizational structures in the Department. That's as far as I permit myself to think about organizational questions.

QUESTION: Mr. Hitch, we understand that you may go forward to the Congress with your budget under the normal appropriation structure and with the program package budget as well. Do you envision that eventually the appropriation structure may change to reflect the emphasis on the program packages, and, if so, do you eventually see that the appropriations will be to the Department of Defense rather than to the three military departments?

MR. HITCH: The answer to your question is no. I do not foresee at this time any necessary change in the appropriations structure resulting from the program formulation. I am sure that there will be changes in the appropriations structure from time to time in the future as there have been in the past, but I don't see any need for getting appropriations in program terms, and I can see some objections to such a change. I might say that it is the Secretary's intention to present and justify the Defense budget to Congress in program terms, beginning with the FY 63 budget. We will then translate the programs into appropriation categories, of course, because this is the way in which the money will be appropriated. You asked a supplementary question, too.

STUDENT: Yes, sir. I asked: Do you feel that eventually the appropriations structure will change so that the money will be appropriated to the Department of Defense rather than to the three military departments?

MR. HITCH: No, I don't. It doesn't seem to me to be very important. It seems to me that the effective control is there in any event. To whom it is nominally appropriated just doesn't strike me as being very important one way or the other.

QUESTION: Mr. Hitch, how do you see that the program package will assist the military departments in knowing what not to do in case the appropriations do not satisfy their requirements?

MR. HITCH: If the appropriations are cut the programs will be adjusted. As I see it, these five-year programs are going to be in a pretty dynamic state. They are going to have to be changed whenever anything important changes in the environment. They are going to have to be changed whenever we have a technological breakthrough or a technological disappointment in a development program. They are going to have to be changed whenever Congress cuts our budget or adds to our budget. They are going to have to be changed whenever the international situation changes or if we learn something new about the threat.

I think that we are going to have to work out procedures for keeping these programs under continuous review, and whenever we find that the money doesn't match the programs we are going to have to bring this up for decision at the appropriate level, which may be the level of the service or which may be the level of the Secretary, depending upon what the particular decision is. But we are going to have to keep them matched. If we find that the money is inadequate for the program, we are going either to have to cut the program or we are going to have to do some reprograming of funds from other programs, cutting them so that this program can be maintained.

QUESTION: Mr. Hitch, you have explained how you will be able to pinpoint the cost of these program packages for executive decision, but, when it comes to weighing the worth against the strategic need 10 or 15 years in advance, it looks as if the Secretary has a very heavy burden. Do you foresee any particular evolution in the Defense Department for helping him with this difficult thing, or do you feel that the present sources are adequate?

MR. HITCH: No, sir, I certainly don't feel that present sources are adequate. I think this is one of the areas in which we have to learn to do better. I am sure it is an area that is extremely difficult, and one in which we will never achieve anything remotely approaching perfection. But we don't have to. All that we are trying to do is make decisions better, more rationally, than they would otherwise be made. For this purpose there is quite a lot that can be done by way of analysis that can be helpful to the Secretary and to his advisers in making these decisions and in recommending decisions.

We can't ever hope to calculate military worth or effectiveness in the way that we can calculate and estimate costs. It is an entirely different sort of thing. We don't have any common measures. But in making particular comparisons of alternatives you always find that there are some comparisons, some measurements, some calculations, some analyses that you can find that help you with that particular choice. It will be different in every case.

If you are comparing nuclear versus nonnuclear ship propulsion, it will be one thing. If you are comparing one kind of fighter aircraft with another, it will be a different kind of comparison. But there are always very useful measures of effectiveness at hand. They are partial measures. They don't take into account everything that is important. They leave quite a lot of room always for the exercise of judgment and for professional military advice, based on experience.

But there are certain things that you can do, and we have to learn to do more of them and to do them better.

QUESTION: In the formulation of Program Volume VI, how does the Director of Defense for Research and Engineering proceed? Does he hold his own separate review, or a joint review with you, or what?

MR. HITCH: Of course in the case of Program Package VI, the Secretary's principal adviser has been the Director of Defense, Research and Engineering. The request for the program submissions in Program Package VI were reviewed very largely by the Office of the Director of Defense, Research and Engineering. This package came through my office formally, as all of them do, but I would say that in this case clearly the most important review of the package was made by the Director of Defense, Research and Engineering.

QUESTION: You referred, Mr. Hitch, to the fact that you have a joint review of the budget with the Bureau of the Budget. In your opinion, is this a good and desirable procedure, or is it one you would hope to see discontinued for the preparation of better Defense budgets?

MR. HITCH: I really don't know. I have not lived through one of these things yet. I am going to observe it this year and perhaps make up my mind whether it is a good thing or a bad thing. I don't expect that it makes a great deal of difference whether the review is done together or sequentially. It does seem to me, however, that with the introduction of the programing, it will for the first time really become feasible to do the two jobs sequentially rather than simultaneously, because the preparation of the budget, with the program decisions already made, should be much simpler, quicker, and the review easier than it has been in the past. At least this is our hope.

QUESTION: Mr. Secretary, at what point in the Defense budgeting process did you meaningfully crank in the outside defense capability that Defense relies on, or that Defense programs will have an impact on, such as the national transportation picture, or the extent to which the military departments will rely on the civilian economy for surface and airlift?

MR. HITCH: I don't know that there is any very precise answer to that question. It seems to me to be essentially a problem for the planning requirements phase and the programing phase, rather than for the budgeting phase. As I stated, these two phases, we expect in the future to be year-round activities, not concentrated at some

particular point of time in the budget cycle. So I would hope that we would look at these things, not at our leisure, but as we have time and as any one of them becomes important in the course of the year, and adjust our future programs accordingly. When we come to the budget phase all we have to do is make some calculations.

QUESTION: Mr. Hitch, in the past, comptrollers have been criticized for making program decisions. On the program packages it is recognized that Secretary McNamara will make the decisions. Will you comment on the role of the comptroller in presenting policy issues to the Secretary?

MR. HITCH: Yes, I can comment on it. We did prepare for each of the packages a front section which attempted to define the issues for decision by the Secretary. This was an essential thing for us to do, at least this year, because there were so many of them, and unless we structured the problems and the issues for decision I just don't think he could ever have gotten through them.

The business of defining issues, of course, is a tricky one, and there are all sorts of ways to define issues. I am sure that we didn't define them to the satisfaction of everybody concerned. We tried to do it in a neutral way, and we tried to give the pros and cons wherever we could see pros and cons on the issues. These were taken, wherever possible, from the service submissions. Sometimes the service submissions were inadequate for this purpose and we supplied them with whatever help we could get.

I haven't had a great deal of feedback or criticism of our definition of the issues. I have been quite surprised that there has been so little criticism and discussion of our formulation of the issues. There was plenty of opportunity for such criticism and discussion, because these summary program packages were distributed by my office to all of the departments and all of the reviewing agencies. In fact, all of the reviewing agencies simply accepted our definition of the issues and gave their advice on those issues as defined. So that, as far as I can see, this was not a very troublesome thing this year. But I may be wrong, I may simply have not heard the criticisms that existed.

QUESTION: Mr. Hitch, in our efforts to shorten the research and development, production and operational cycle in the last few years, we have concentrated on developing a current approach and have concentrated on trying to get early decisions to proceed with new major weapon systems. A major problem here, however, has

been the fact that early in the cycle cost estimates are notoriously very bad just for the production of the weapon, much less its operation.

Would you comment on the effect that the application of the system you have described, cost effectiveness, is anticipated to have on this problem, either, (a) to delay the decisions on weapon systems, or, (b) the risk of selecting the wrong weapon system?

MR. HITCH: Well, I think you are raising questions that perhaps ought to be the subject of several additional days of discussion. I don't think I can dispose of them very satisfactorily this morning. The whole question of concurrency is, as you know, a highly controversial one. There are strong advocates of concurrency, and there are those who believe that its gains are largely illusory. I don't see that the programing activity as such should have too much to do with the range of questions that you have mentioned, except that there now will be a definite program, a DOD approved program. There will be definite procedures for requesting changes, for initiating changes in that program, definite procedures for initiating new programs.

I am hopeful, especially if we make the programing a year-round activity, as we want to do, instead of trying to concentrate all of the program decisions into the same period as the budget decisions, that this will expedite the getting of good decisions--I mean both get them faster and get them better. Whether this will mean more or less concurrency I think I'd rather not attempt to argue at this time.

QUESTION: I may be embarrassed to find that my military classmates know the answer to this already. I will risk the question, however. Can you identify for us some of the areas of major disappointment on the part of the services this year after the review in OSD of the programs?

MR. HITCH: No, I don't think I am the person to answer that question. I am sure that others know much better than I the areas of disappointment.

QUESTION: Tied in intimately with each of these program packages are trained personnel. It appears to me that, if program packages are accelerated or cut out or started, the personnel impact on the various services would be terrific. One of the big problems in the services is having a stable personnel ceiling for the sake of the men themselves. Has any thought been given to the stability of the people in the programs under consideration?

MR. HITCH: As I think I mentioned, this is one of the areas where you have to have a management that is not too closely related to the programs, as we are using the term, "program." You have to have, as you just intimated, a more or less stable personnel policy. You have to manage your personnel program as a whole and not in relation to program elements. You have to have a continuing training program that has a certain amount of stability in it, and not increase it by a factor of four and cut it to zero whenever you change programs.

So we have a requirement here for managing personnel that is in some ways apparently, at least, at cross-purposes with the program approach. I am sure that there is some problem here of reconciling these two approaches, and one that we haven't fully worked out. On the other hand, we are just going to have to make appropriate changes in personnel ceilings as the programs change. If we change the number of divisions in the Army, if we change the number of wings in the Strategic Air Command, if we increase the number of tactical air squadrons, these are going to require changes in one direction or another of personnel. There are various things that you can do to soften these blows, to limit the amount of change that you have in any particular year, to make it possible to absorb these changes, but we do have eventually to adjust the personnel to what is required by the programs, even though we manage them in different terms.

QUESTION: Mr. Hitch, a great deal of our money each year is spent on common items of support--aeronautical spares, and electronics--and as a result of Project 100, which was a study of the single-manager function, the decision was made to create the Defense Supply Agency. It is my understanding that eventually the agency plans to compute the requirements for the services and to budget for the requirements. All of these studies have been centered around gross computations tied programs. I wonder if you care to comment, with the idea of the Defense Supply Agency in mind, on how difficult this makes the problem of budgeting on a weapons system concept.

MR. HITCH: I am not quite sure that your understanding of the functions of the Defense Supply Agency is correct. I have not been too closely associated with the planning of DSA. This is Secretary Morris's primary responsibility. My understanding is that the requirements will continue to be submitted by the services and not by the DSA, that the DSA will simply procure the services' requirements. If this is correct, the requirements would be submitted by the services and reviewed in our program review and/or budget review, much as they are now.

I think, again, that we could handle this either way as far as the programing and budgeting are concerned. We have not yet decided precisely--at least we had not the last time I checked, a little over a week ago--how the DSA is to be funded. I think the answer is that it will be a stock fund and that it will be reimbursed by the services as any stock fund is for what they obtain from the DSA. It will be a wholesale stock fund.

This means that the requirements review will be a review of the service requirements. It may be that the DSA will be one of the reviewing agencies for reviewing the service requirements, but this is something that we will have to work out as the DSA develops.

QUESTION: Mr. Hitch, you used for discussion purposes the nuclear propulsion of surface ships. Recently the Navy made a study on the cost affecting this aspect of the nuclear propulsion of surface ships which comes to one general set of conclusions. Congress, on the other hand, more or less historically, since Admiral Rickover entered the picture, has strongly favored a continual changeover to nuclear propulsion, and in the past the Secretary of Defense has been somewhere in between.

I'd like to find out how the program package arrangement will reconcile, if it will, the differences between the professionals, as exemplified by the Navy, perhaps, and Congress in this very expensive program.

MR. HITCH: Yes, sir, I'm very interested, too. All I can say is that the Secretary has made his decision here and it corresponds, I think, very closely to the conclusions of the Navy. What his success will be in presenting this program and selling it to the Congress, I don't know, but I think he will do as good a job as anyone could do.

We are going to have to, I am sure, from time to time, recognize that we are not going to sell the Congress on programs that, at the Secretary of Defense level or even the Presidential level, we approve and recommend in our budget submissions. When this happens, we are going to have to adjust the programs accordingly to meet Congressional wishes.

CAPTAIN MURRAY: Mr. Secretary, we appreciate very much the fact that you have taken time from a very busy schedule to come over and discuss our mutual problems in such a straightforward and

frank manner. We hope that the returns you get next year when these boys go back to their added responsibilities will reward you in some way. On behalf of all hands, thank you very much.

(22 Dec 1961--5,600)feb:ekh