

457

91st Congress }
1st Session }

JOINT COMMITTEE PRINT

THE MILITARY BUDGET AND NATIONAL
ECONOMIC PRIORITIES

REPORT
OF THE
SUBCOMMITTEE ON ECONOMY IN GOVERNMENT
OF THE
JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES
TOGETHER WITH
SUPPLEMENTARY VIEWS



DECEMBER 23, 1969

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1969

38-035 O

774

JOINT ECONOMIC COMMITTEE

[Created pursuant to sec. 5(a) of Public Law 304, 79th Cong.]

WRIGHT PATMAN, Texas, *Chairman*

WILLIAM PROXMIRE, Wisconsin, *Vice Chairman*

HOUSE OF REPRESENTATIVES

RICHARD BOLLING, Missouri
HALE BOGGS, Louisiana
HENRY S. REUSS, Wisconsin
MARTHA W. GRIFFITHS, Michigan
WILLIAM S. MOORHEAD, Pennsylvania
WILLIAM B. WIDNALL, New Jersey
W. E. BROCK 3d, Tennessee
BARBER B. CONABLE, Jr., New York
CLARENCE J. BROWN, Ohio

SENATE

JOHN SPARKMAN, Alabama
J. W. FULBRIGHT, Arkansas
HERMAN E. TALMADGE, Georgia
STUART SYMINGTON, Missouri
ABRAHAM RIBICOFF, Connecticut
JACOB K. JAVITS, New York
JACK MILLER, Iowa
LEN B. JORDAN, Idaho
CHARLES H. PERCY, Illinois

JOHN R. STARK, *Executive Director*

JAMES W. KNOWLES, *Director of Research*

ECONOMISTS

LOUGHLIN F. McHUGH

JOHN R. KARLIK
COURTENAY M. SLATER

RICHARD F. KAUFMAN

Minority: DOUGLAS C. FRECHTLING

GEORGE D. KRUMBHAAR

SUBCOMMITTEE ON ECONOMY IN GOVERNMENT

WILLIAM PROXMIRE, Wisconsin, *Chairman*

SENATE

JOHN SPARKMAN, Alabama
STUART SYMINGTON, Missouri
LEN B. JORDAN, Idaho
CHARLES H. PERCY, Illinois

HOUSE OF REPRESENTATIVES

WRIGHT PATMAN, Texas
MARTHA W. GRIFFITHS, Michigan
WILLIAM S. MOORHEAD, Pennsylvania
BARBER B. CONABLE, Jr., New York
CLARENCE J. BROWN, Ohio

LETTERS OF TRANSMITTAL

DECEMBER 23, 1969.

To the Members of the Joint Economic Committee:

Transmitted herewith, for your consideration and use and for the use of other Members of Congress and interested parties, is a report entitled, "The Military Budget and National Economic Priorities" by the Subcommittee on Economy in Government.

Sincerely,

WRIGHT PATMAN,
Chairman, Joint Economic Committee.

DECEMBER 22, 1969.

To the Members of the Joint Economic Committee:

Transmitted herewith is the report of the Subcommittee on Economy in Government entitled "The Military Budget and National Economic Priorities" together with statements of supplementary views. The printed record of testimony has previously been made available to members of the committee and to the public.

We wish to thank the administration officials and the experts who appeared before the subcommittee as witnesses.

Sincerely,

WILLIAM PROXMIRE,
Chairman, Subcommittee on Economy in Government.

CONTENTS

	Page
LETTERS OF TRANSMITTAL.....	III
INTRODUCTION.....	1
1. THE U.S. MILITARY BUDGET.....	3
2. THE SOVIET MILITARY BUDGET.....	6
3. THE CIVILIAN BUDGETS.....	9
4. NATIONAL ECONOMIC PRIORITIES.....	11
RECOMMENDATIONS.....	13
SUPPLEMENTARY VIEWS OF REPRESENTATIVE CONABLE AND SENATOR JORDAN.....	14
SUPPLEMENTARY VIEWS OF SENATOR CHARLES PERCY.....	15
SUPPLEMENTARY VIEWS OF REPRESENTATIVE CLARENCE J. BROWN.....	17

THE MILITARY BUDGET AND NATIONAL ECONOMIC PRIORITIES

Introduction

Prior to any discussion of national priorities and their reordering is the need to appraise the objectives of existing Federal programs, their effectiveness in attaining social objectives, and their economic effects. In this time of budget stringency, room for new programs and priorities or tax reductions will be found only if other programs are reduced or phased out. Flexible and responsive government requires that those programs whose mission is outdated or largely accomplished be reduced in priority so that other more timely and urgent social demands can be met and low priority programs not be initiated in the first place.

To assist in a reformulation of national economic priorities, subcommittee hearings and studies have surveyed a broad range of existing Federal programs and inquired into both the importance of their objectives and the effectiveness of their performance. Programs in both the civilian and military budgets were questioned as to their efficiency, performance, costs, incentives, effects on income distribution, and financing and contracting procedures.¹

The subcommittee's review of civilian programs was neither comprehensive nor exhaustive. However, case studies on nine separate programs, prepared by recognized experts at the request of the subcommittee, were presented and discussed during the hearings. In addition, the subcommittee heard critical testimony on other civilian programs by witnesses who spoke from knowledge and experience. The subcommittee reviewed military procurement programs on four separate occasions in 1969 and in numerous other investigations in recent years.²

The results of the subcommittee studies are most disturbing. In the overwhelming majority of cases, economic experts described major inefficiencies, inequities, and performance shortfalls in public programs. Several programs were characterized as either misallocating national resources (in that the costs of the program exceeded the benefits) or ineffective in accomplishing the objectives for which they were designed. Testimony indicated that a number of Federal programs entailed serious and undesirable equity consequences in that, on balance, they redistribute income from lower to higher income people. Other

¹ U.S. Congress, Joint Economic Committee, hearings on "Economic Analysis and the Efficiency of Government," before the Subcommittee on Economy in Government, September and October 1969, and hearings on "The Military Budget and National Economic Priorities," before the Subcommittee on Economy in Government, June 1969.

² U.S. Congress, Joint Economic Committee, Subcommittee on Economy in Government hearings on the "Economics of Military Procurement," November 1968 and January 1969 (Pts. 1 and 2); hearings on "A-7D Brake Problem," August 1969; hearings on "Economy in Government Procurement and Property Management," November and December 1967; hearings on "The Economic Impact of Federal Procurement," January and March 1966.

programs were found to be imposing significant and unaccounted for costs on low-income citizens. Many programs were seen to contain incentives which encouraged rising costs, inefficiency, and poor performance in that part of the private sector affected by the program. Serious problems of excessive costs and cost overruns were observed in a number of areas. In several cases, it was recommended that the Federal Government rely more heavily on user charges in the distribution of goods and services provided by the public in order to eliminate the waste generated by the prevailing practice of giving them away.

1. The U.S. Military Budget

In subcommittee hearings on military spending, the size of the defense budget was seriously questioned, and convincing evidence of substantial waste and inefficiency was documented. The subcommittee is deeply convinced of the necessity of a strong defense program. However, in our judgment, defense expenditures can be significantly reduced without any impairment in national security. Indeed, the fat and waste within the Defense Establishment may be impeding the military from operating at peak strength or optimum efficiency. The subcommittee applauds recent announcements of defense cuts and looks forward to actual reductions in expenditures.

Large cost overruns on major weapons systems were a serious problem in the 1950's, and did not seem to improve substantially in the 1960's. In some respects inefficiency in defense production appears to have grown worse as schedule slippages continued and performance standards remained questionable. To some extent technological uncertainty and general economic inflation account for cost increases in major weapons programs. However, witnesses gave disturbing testimony that both Government officials and contractors invariably know that promises will exceed performance at the outset of any weapons program. This is euphemistically referred to as "overoptimism" in cost and performance estimation. Others have labeled the process whereby the Defense Department and/or Congress is misled about the true costs of military programs as "bidding and lying competitions." One witness, Gordon Rule, Director of Procurement Control and Clearance, Department of the Navy, stated that the Government and the contractors "play games" with Congress. That is, they purposely underestimate costs at the outset of programs in order to get funding from Congress. The subcommittee is deeply concerned over this matter not only because of the inherent dishonesty involved, but because it reflects defective decisionmaking and the imposition on the public of unnecessary costs.

In the past, this subcommittee has disclosed numerous other areas of inefficient and ineffective management of Department of Defense programs. These include lack of inventory or poor inventory control, lack of information on defense profits, failure to obtain adequate data on subcontracting, and the failure to take steps to correct deficiencies upon the manifestation of cost growth and other program difficulties. The subcommittee is not aware of any case where an overrun has been detected and arrested or where disciplinary action has been taken against those responsible for cost overruns. The C-5A cargo plane program is a classic case of an overrun that has grown and grown and that seems to be still growing. Meanwhile, the public pays and pays. The sheer growth of the costs has resulted in a cutback in the number of C-5A's to be purchased from 120 to 81.

(3)

However, there is some likelihood that the costs of the 81 will be as much as the original estimate for the 120. Significantly, the C-5A problem has not been solved. Only the number of planes to be purchased has been reduced. Too often the only solution found by the Pentagon in connection with program difficulties has been the expenditure of additional funds. Negotiated contracts, to a considerable extent with sole-source suppliers, have come to replace true competition. In fiscal year 1969 formally advertised competitive contract awards declined to 11 percent. The remainder were negotiated, mostly with sole-source contractors. To take the place of competition, the use of which formerly insured at least a certain degree of efficiency, various contractual devices such as incentive contracting and regulatory statutes such as the Truth-in-Negotiations Act have been employed. But none of the so-called substitutes for competition have been significantly successful.¹

In an effort to control costs and performance, a variety of management systems have been conceived. In fact, they have proliferated. Implementation, however, of effective management systems has yet to be demonstrated. The single successful effort to measure program costs in progress—the “should-cost” study of the engine contract for the F-111 program—has not been repeated. Although a performance measurement program is currently in operation, the testimony received indicates that the Comptroller of the Defense Department does not obtain sufficient information to detect significant cost overruns. Further, in the past, the Comptroller has not had actual control over the expenditure of funds, so that even if a serious overrun were discovered, it is debatable whether he could do anything about it. In August 1969, Dr. Robert Anthony, the former Comptroller of the Department of Defense, responding to the chairman’s query “What does the Comptroller in the Department of Defense control?” replied: “He doesn’t control anything. The word ‘comptroller’ is a misnomer and always has been.” The subcommittee intends to follow the progress of the present performance measurement system to determine whether it contributes to improved cost controls.

The effects of the inefficient use of Defense Department resources has contributed to the demand for increased military expenditures, and the failure of the executive branch of the Government and the Congress to properly scrutinize military requests has resulted in excessive military expenditures. As a consequence, there has been a misallocation of national resources. Moreover, the testimony indicated that in the past, the question of civilian priorities versus military priorities has seldom been a subject for discussion in the highest councils of the National Government.

Congress, for its part, has played a passive, noncritical and overly permissive role. Fiscal restraint with regard to military spending has been almost entirely absent. One reason for this has been the reluctance of Congress to require the executive to disclose sufficient information on which to base intelligent judgments. For example, the Congress should have before it multiyear projections of program costs so

¹ See U.S. Congress, Joint Economic Committee, report on the “Economics of Military Procurement,” of the Subcommittee on Economy in Government, May 1969.

that the consequences of its decisions can be known at the time budget requests are acted upon. Congress needs to have better information about the overseas commitments of the United States on an ongoing basis so that it can relate these commitments to the budgetary implications of our defense program. Congress should have more meaningful breakdowns of the defense budget, such as the cost of maintaining general purpose forces in Asia or in Europe, and the cost of buying and maintaining one ground based tactical airwing compared to a carrier based tactical airwing.

A second reason for Congress' inability to adequately monitor the defense budget has been its reluctance to provide itself with sufficient staff and facilities to review and analyze information collected with public funds by the Defense Department. Although there is considerable expertise on some of the committees of Congress that deal with the defense program, Congress as a whole is not equipped to match the analytical capabilities of the Pentagon. As Senator Barry Goldwater testified, the essential question is, how much defense spending is enough? There is a critical need for Congress to develop its own independent defense analysis capability so as to enable it to ask the important questions and better exercise its authority under the Constitution to control the purse strings of Government.

In the past, the General Accounting Office has played an important part in the investigation and auditing of the expenditures of the Department of Defense, and in bringing to the attention of Congress numerous examples of waste and inefficiency. However, in the judgment of the subcommittee, the GAO needs to take on a larger role in the analysis of weapons systems contract performance, especially with regard to the more advanced and costly systems. As an agency of the legislative branch, the GAO is peculiarly able to serve the need for independent evaluations of expenditures and proposed expenditures by the Defense Department.

2. The Soviet Military Budget.

In view of the fact that national security is at the head of our list of national objectives, one of the most pressing questions relates to the resources needed to meet the potential threat of those who might attack this country or its allies. It was for this reason that the subcommittee devoted 2 days to hearing from experts on the U.S.S.R. Chairman Proxmire noted in opening these hearings:

It is obvious that the military potentiality of a Soviet economy that is half the size of America's has a central bearing on the size and shape of our military budget. Our military thinking and indeed the concern of all Americans with respect to military preparedness is shaped by the threat—actual and potential—which the Soviet Union represents to this Nation.

Eight experts—economists, political scientists, sociologists, and historians—were asked to present their views on the current and prospective status of the U.S.S.R. economy and its political apparatus. On most major points, there was general agreement.

The Soviet economy is far smaller than ours. Although international comparisons of national capacities are difficult to make at best—and particularly so when it involves comparison of a free market economy such as ours and a controlled economy such as the U.S.S.R.—it appears that the Soviet gross national output (GNP) is in order of magnitude about half the size of the GNP of this country, and on a per capita basis about two-fifths. The growth rate of the Soviet economy has slowed substantially since the fifties, but it is still quite respectable, averaging about 5½ percent annually in the 1962–67 period, assuming the accuracy of available statistics. Even though this relative growth was greater than that of the United States in the same period, the U.S.S.R. growth in absolute terms was not as great as that of this country with its much larger base.

The economic experts also pointed out that Soviet growth was much more expensive than ours, in that much more capital resources had to be devoted to the sustaining of its growth rate, even more so in the recent past than in the decade of the 1950's.

The Soviet standard of living is likewise far lower than ours. Several experts pointed out that the pressure to increase the volume of consumer goods was intense and a factor which even a dictator government had to reckon with if it were to achieve its primary goals.

Reforms were initiated by the Brezhnev-Kosygin regime to reduce the cost of capital growth—or at least to halt the expansion of that cost—and to improve efficiency in the supply of consumption. These reforms are apparently still in process and assessment of their success remains to be seen.

These reforms were in large part dictated by the pressure of military requirements. The exact amount of defense spending and the

proportion it represents of Soviet GNP are extremely difficult to assess but the consensus of the experts was that, while percentage-wise Russia may be spending more than the United States is for defense, in absolute terms there is little doubt that the amount of resources claimed by defense requirements of the U.S.S.R. was far less than in this country.

Moreover, the economic experts pointed out that any major increase in defense outlays could well be counterproductive in that it would have to be at the expense of a cutback in the standard of living or in investment for growth. Obviously these latter considerations would not weigh heavily if the Russians felt compelled to increase "defense" outlays for security reasons. Discussing this problem, Prof. Abram Bergson noted:

In sum, the Soviet Government has been seeking to support a military establishment of the first class with an economy that by U.S. standards has been of the second class. This is a difficult feat, and it is apt to become more difficult in the future, as the competing claims of capital investment and consumption become more demanding. Still the Government has found the necessary means so far, and it should be able to continue to do so. But it can be expected to scrutinize marginal defense requirements for additional military outlays more closely than hitherto. It will do so the more should defense requirements increase more rapidly than output. It also goes without saying that for the U.S.S.R. there has always been an economic case to join in arms control and disarmament measures. That should certainly still be so in the future.

The experts discussing the political process in the Soviet Union, while not unanimous, were generally in agreement that the Government had moved far away from the repressive form which typified the Stalinist era. Obviously the one-party system still rules and it is still a dictatorship form of government, but apparently the various bureaucracies have stepped up their struggle in representing their respective constituencies. Among the elite, there are representatives of the military, agriculture, industry, science, and the cultural elite all vying for government funds.

Even though the consumer may not be so well represented, the changed circumstances since the days of Stalin have given them a greater chance to be "heard." As Professor Fainsod put it:

Even at the base of the Soviet social pyramid rank and file, peasants and workers are now in a position to exert greater influence on the course of elite decisionmaking. When collective or state farmworkers respond to inadequate incentives by listless performance in the public sector, by transferring their energies to private plots, or by abandoning their jobs to seek better paid work in the industrial centers, they in effect bargain to improve their position. They vote with their feet. In the absence of large-scale terror, there is a point beyond which they cannot be driven. If more production is to be extracted from them, improved incentives have to be provided. The state and party functionaries responsible for increasing agricultural output find themselves forced to plead the case of

their peasant clients. In a perhaps perverted form, what takes place is a form of indirect representation.

The same principle applies more or less to the industrial worker. In the absence of forced labor, workers abandon unattractive jobs in search of better opportunities. Those who are responsible for the recruitment of labor in difficult circumstances—whether they be enterprise directors or party secretaries—recognize that they must provide incentives and amenities if they are to attract a work force. Willingly or unwillingly, they become spokesmen for the workers' needs and aspirations when they argue the case for greater incentives as a key to increased production.

All the experts discussing the political processes in the Soviet Union disclaimed the view that intra-elite struggles could be sustained in the face of a basic showdown. The consensus, indeed, seemed to be that at the present time, the military had assumed more dominance since the rule of Khrushchev. All the witnesses noted that the Party—as distinct from the various “pressure groups”—was the final font of power, and the basic differences in the expert testimony concerned the degree to which the representatives of the various special interests had the ear of the Party apparatus. At one end of the spectrum were those experts who maintained that the basic Marxist principle that capitalist countries—and more particularly the United States—were the undying enemy of the “people” states, as represented by the U.S.S.R. In the view of these experts, the policy of coexistence was temporary and should not be depended on in determining U.S. military strategy. At the other end of the spectrum were those who believed the old-line Marxist doctrine was no longer a binding factor, that the U.S.S.R. leadership has moved to recognition that in a nuclear age all-out war was unthinkable as a basic policy alternative, and that the Soviet Union as a matter of self-interest was seriously interested in confining its competition with the West, and with the United States in particular, to the political and economic planes. All agreed that the U.S.S.R. would not hesitate to use force or the threat of force to gain advantage over the West. Its changed posture substantially increased the emphasis placed on the need for more rapid growth and for more adequately meeting the consumption needs of its population.

Despite the differences of opinion on some points, two facts stand out clearly. First, according to spokesmen of the Department of Defense, the United States is stronger militarily than the Soviet Union. Second, an effort on the part of the Soviet Union to match the defense program of the United States could pose serious difficulties for the Soviet economy.

In the judgment of the subcommittee, the defense program of the United States should be based on careful and realistic estimates of Soviet capabilities and limitations, as well as the strengths and weaknesses of other potential adversaries. While it would be unrealistic to underestimate one's potential adversary, the subcommittee is disturbed by a tendency of some to magnify the strength of the Soviet military establishment. Expenditure of unnecessary sums for defense leads to misallocation of our own resources and therefore weakens this Nation in the long run.

3. The Civilian Budgets

The subcommittee received testimony in its recent hearings on "Economic Analysis and the Efficiency in Government"¹ indicating serious misallocations of resources in several important civilian programs. On the basis of a number of economic case studies presented to the subcommittee, we are deeply concerned over program performance, efficiency, and equity impacts generated by several Federal Government activities.

Testimony was received from prominent economic experts on the urban highway and urban renewal programs, medicare, aid to higher education, water resources policy, water pollution, the helium conservation program, the maritime program, aviation policy, and highway policy.

The testimony clearly identified program inefficiency and inequities in these cases. For example, an analysis of the urban highway and urban renewal program showed that Federal programs in this area failed to consider major elements of cost in design, compensation, and the implementation of program decisions. Federal agencies tend to define the effects of highway projects too narrowly, assume the existence of free market condition in urban housing, and fail to compensate for money costs which get imposed on citizens by highway activities. As a result, inefficiency and inequities are created.

Coinciding with the first years of the medicare program has been a sharp inflation in hospital costs, amounting to 16 percent in 1966 and 1967. The analysis of this program indicates that the method of reimbursement, whereby hospitals are reimbursed for their full costs incurred in treating medicare patients, fosters unnecessarily high hospital costs. In other words, the medicare reimbursement formula contains a reverse incentive and encourages increases in the cost base.

The aid to higher education program is marked by a basic inequity in that the support to institutions, as distinguished from grants and loans to students, subsidizes high income families, while the children of the poor tend to receive lesser quality higher education.

Analysis shows that the current subsidy enforcement strategy in the water pollution program is inefficient, ineffective and inequitable. The policy of providing Federal aid for waste treatment ignores the fact that water pollution imposes an enormous social cost on the public by destroying or reducing the value of water resources. So long as present policy contains no incentives or penalties which would cause polluters to stop polluting water sources, the eventual costs of these harmful activities will be shifted to the taxpayer instead of the water polluter who is doing the damage.

¹ U.S. Congress, Joint Economic Committee, Hearings on "Economic Analysis and the Efficiency of Government," before the Subcommittee on Economy in Government, September and October 1969.

Almost \$15 billion has been requested for a 10-year program of airport and air facilities development to accommodate the anticipated tripling of air traffic control operations anticipated over the next 12 years. The rapidly expanding demand has already created serious congestion and safety problems. Yet the Federal Aviation Administration has failed to take such steps as imposing the costs of providing and maintaining airport facilities on general aviation users, and is in effect imposing an unfair burden of maintaining the program on air carrier passengers and taxpayers generally.

The Federal highway program will spend approximately \$4 billion in fiscal year 1969 from highway trust fund revenues generated by the Federal gasoline tax. But the Department of Transportation which is responsible for it as well as other transportation programs is prohibited from making economic analyses of alternative transportation policies by section 4(b)(2) of the Department of Transportation Act of 1966. The highway trust fund acts as a barrier against policy-planning economic analysis and congressional scrutiny by allocating outlays by formula rather than analysis of what is needed.

These and other analyses of Federal civilian programs suggest the need for a fundamental reappraisal of all Federal programs. Serious questions need to be raised about programs which may have become obsolete or whose objectives are unfulfilled, and which merely tie up economic resources.²

² The forthcoming report of this Subcommittee on "Economic Analysis and the Efficiency of Government" will contain recommendations for improving the scrutiny of civilian programs, eliminating waste and inefficiency, and revising the budget document.

4. National Economic Priorities

An argument can be made that the Federal Government is spending too much money in both the civilian and military sectors, in the sense that the funds being spent are not being spent wisely. A case can also be made that the chief beneficiaries of excessive and inefficient civilian and military spending are often relatively few and powerful groups who are, in effect, heavily subsidized by the government, while the principal victims are the middle and lower income groups who support unnecessary Federal spending with tax payments and who bear the brunt of resource misallocations by having to suffer pollution, congestion, and poverty.

But the fact that there is waste and inefficiency in both the civilian and military budgets does not reduce the problem of reordering our national priorities to a simple equation. As we have seen, the earmarking of public funds for goals such as the eradication of air and water pollution or the elimination of poverty does not assure the attainment of those goals or significant progress toward them. In other words, the simple shift of public expenditures from one area to another, or the mere increase of funds in certain programs, will not necessarily solve social problems or correct resource misallocations.

Moreover, the purpose of the subcommittee is not to provide an economic plan for future Government expenditures, nor is it to state where resources ought to be allocated. What we hope to do in this report is to reemphasize the need for greater scrutiny of the defense budget and more rigorous use of economic analysis in decisionmaking, and to outline some procedures that need to be established in order to avoid waste and inefficiency and bring about greater economy in government.

The outstanding fact about national economic priorities today is that we have failed to strike a balance between military and civilian needs. For in viewing the total Federal budget and separating out the defense and defense-related programs, it becomes clear that we are spending for military purposes not \$80 billion, but far in excess of that figure, taking into account the amounts spent by the Department of Defense and other agency expenditures clearly intended for our present defense and for the payment of military costs incurred in earlier periods. Thus, most of the annual interest payments on the national debt should be considered a defense-related expenditure because the debt was incurred largely to finance military programs. The costs of the various veterans program is clearly defense-related, as are several other programs not usually considered in discussions of the defense budget. Thus, total defense and defense-related expenditures are much higher than the 40-percent figure usually attributed to defense outlays as a percentage of the Federal budget.

This is not to say that the commitments undertaken for past wars and earlier defense programs can be abrogated or changed because

of the heavy present costs, but it is important that we be able to identify all defense and defense-related programs and to understand their costs when considering the present defense budget in the context of total Federal expenditures.

Yet in deciding upon the size of the defense budget, the tendency has been to allocate to it more or less all that the traffic would bear, in terms of executive judgment and congressional acquiescence, without evaluating the impact of defense on the national economy or upon the civilian side of the Federal budget. As former Secretary of the Interior Stewart Udall stated in his testimony before the subcommittee:

* * * neither of the Presidents I served under had any systematic institutional way whereby there was a forum where you could argue domestic priorities against military priorities. It just was not a subject that was discussed.

And,

We have been making our military decisions here with a certain set of priorities, and over here on the domestic side we have had an entirely different set of priorities.

The Congress too has lacked a forum in which an overview could be taken of the entire spectrum of resource allocations, civilian and military. Such a forum, in our judgment, should provide an opportunity for the expression of various points of view, and analyses from within the Congress and without, so that the elected representatives as well as the public can be better informed about important issues. We believe that the Subcommittee on Economy in Government has taken a major step toward the establishment of this kind of a dialog with its hearings on "The Military Budget and National Economic Priorities," and it is our intention to conduct similar public discussions on an annual basis.

We believe that the subcommittee should hereafter be called the Subcommittee on Priorities and Economy in Government. It is anticipated that annual hearings will be conducted on national economic priorities including the allocation of resources for civilian and military programs.

We do not believe that the holding of hearings alone will be a panacea or that it will necessarily improve the quality of the decisions made about resource allocations. As we have stated, it is imperative that the Congress generally make major improvements in its resource-gathering and analytical capabilities. We are today relatively unarmed against the onslaught of information and arguments that emanate from the executive branch, and not only in the area of the defense budget. While it would not be necessary or desirable to match the executive bureaucracy, it is important that we be able to penetrate behind rationalizations of bad policies and practices. In the judgment of the subcommittee, the establishment of a forum within the Congress for a wide-ranging discussion of national priorities on a periodic basis, together with the general improvement of Congress' staff resources and analytical capabilities, are prerequisites to informed and effective allocations of public resources.

**Joint Economic Committee Print "The Military Budget and National Economic
Priorities"**

NOTE

Representative Patman states, "Because other responsibilities prevented my participating in the hearings on which this report is based, I do not wish to take a position on any of the conclusions and recommendations contained herein."

SUPPLEMENTARY VIEWS OF REPRESENTATIVE CONABLE AND SENATOR JORDAN

While we generally agree with the analysis and recommendations of this report, we take exception to recommendation 3 on page 13, which calls for Department of Defense expenditures to be reduced, "no less than \$10 billion below the level of actual expenditures during fiscal year 1969." This figure is plucked out of thin air, without so much as a reference in the body of the report to supporting data. While we agree that the defense budget can be cut without reducing the effectiveness of our military security, there is no reason to settle on a \$10 billion cut rather than, say, \$5 billion or \$15 billion.

By making this recommendation, we believe the subcommittee turns its back on all of the principles of rational, economic analysis for informed decisions that it has sought to promote in the executive and the Congress. Following these principles, we would prefer to see careful analyses made and specific programs reduced where benefits do not significantly exceed costs, rather than general, across-the-board cuts with obscure implications for the Nation's security. The total spending reduction should not be the primary objective, but rather achieving a dollar's worth of effective defense for each dollar spent. This is the approach we endorse.

Recommendations

1. The Department of Defense should include in its annual posture statement at least 5-year projections of the future expenditure consequences of current and proposed defense programs including weapons procurement, military force levels, and other meaningful components of the defense budget. The posture statement should contain better cost information about the components of forces and weapons systems. The civilian departments of government should explore the possibility of following a similar procedure as cost overruns and other problems discussed in this report are not unique to the Department of Defense.

2. The Executive should submit to the Congress an annual posture statement including, among other facts, the international commitments of the United States, a review of their relationship to our national interests, and the relationship of the commitments and our interests to the budgetary implications of our defense program.

3. For the fiscal year 1971, expenditures by the Department of Defense should be reduced by no less than \$10 billion below the level of actual expenditures during fiscal year 1969. Reductions in spending should be closely monitored by the Congress so that inefficiency and waste are not fostered in the name of economy and so that balance is maintained in our overall military strength.

4. The Bureau of the Budget should define "defense-related" programs, including those for past and current military activities, and identify all such expenditures so that in the future they can be tabulated in the budget document.

5. The statutory authority of the General Accounting Office should be enlarged so as to give the GAO a greater role in the analysis of expenditures by the Department of Defense, including the analysis of weapons systems, contract performance and proposed new systems, especially with regard to the more advanced and costly systems.

SUPPLEMENTARY VIEWS OF SENATOR CHARLES H. PERCY

I fully concur in the major thrust of this report. In too many instances, the taxpayers' money is spent on programs and projects without the Congress or the executive branch knowing fully whether or not the expenditures contribute to our priority defense and civilian needs. The tools presently available to measure cost against benefit are still extremely crude, however, and we must be careful not to charge ahead in creating or abolishing programs without displaying a cautious realism in our acts.

I am especially pleased with the second recommendation which calls on the executive to make an annual posture statement to the Congress on the international commitments of the United States. On August 21, 1967, before the Senate Committee on Foreign Relations, I proposed that the President, "on an annual basis, itemize for the Congress—or at least for the Senate—our national commitments as he sees them, detailing the nature of each commitment, its limitations, and the justification for it in terms of national interest." It is my earnest hope that this recommendation will be adopted.

Testimony received by this subcommittee, as well as that presented elsewhere, clearly demonstrates that heavy waste exists in our defense programs. There is no question that programs can be reduced and funds cut. The administration, in fact, has begun to examine programs and costs carefully and cut back where warranted. The Air Force, for example, has recently decided to buy 39 fewer C-5 aircraft; unneeded military bases are being closed down; and nonpriority naval vessels are being laid up. There is little doubt, however, that more reductions can be made. The question is, how much? The report suggests \$10 billion.

The Joint Economic Committee has prided itself on using and promoting the principles of economic analysis. Yet, there is no justification included in the report to support the \$10 billion recommendation. I question whether we are justified in pulling a figure out of the air at the same time that we are urging others to use sophisticated fiscal management tools. Better that the subcommittee proceed to make such analysis or request the General Accounting Office or Bureau of the Budget to do so.

I believe caution is also required in allocating costs to the defense budget. The report, for example, lumps veterans benefits, AEC expenditures, and interest on the national debt in the military budget. While these expenses are defense-oriented, we should not be too careless in lumping them in with the defense budget as the report suggests. For one, this tends to improperly inflate the defense budget and thereby raise false hopes over the amount of money that can be cut. In addition, by raising such hopes, it could lead to cutting programs in the defense or civilian sectors which are of importance. Veterans benefits, it should be noted, are principally welfare and not defense-oriented; only the

military weapons portion of the AEC budget is defense-related; and interest on the national debt is not only a payment on past commitments which we cannot reverse but also is impossible to separate into defense and nondefense categories.

Finally, waste exists in the civilian sector as the report points out. The same careful application of analysis and the same constructive use of fiscal tools must be used in this sector as in the military to eliminate low-priority programs and expenditures. The recommendation in the report, however, makes only the slightest reference to the cost oversight needs in the civilian area. The fifth recommendation, for example, only refers to the GAO's responsibility in the defense area. This places an improper emphasis on defense spending, in my opinion. Our needs to save money exist in all areas and can be achieved in all areas. Efforts of Congress and the executive branch must be directed accordingly to a broader scope than is suggested in the report's recommendations.

SUPPLEMENTARY VIEWS OF REPRESENTATIVE CLARENCE J. BROWN

I recognize the temerity it requires of me as the newest member of the Joint Economic Committee to not only write separate views from the majority on my first report from this august committee, but to insist upon writing views independent from those of the minority. I do so with no thought of disrespect for my committee colleagues. I do so, rather, because I hold the committee in such high regard that I do not want to see its reputation sullied by such a puerile report as this. Over the years, reports of the Joint Economic Committee have earned a deserved reputation as compendiums of well-documented facts that led, with impressive logic, to conclusions which have become general guides to new national policies. Reports of the Joint Economic Committee generally stand head and shoulders above even the most impressive reports of the House of Representatives where much specialized work is done on national problems. The result has been that Joint Economic Committee documents have become reference works for many congressional offices and Federal agencies.

This report is a sad disappointment by comparison.

I was not on the committee when the hearings began, and this may discredit my criticism in some eyes. But for me, it justifies criticism: the report does not stand alone as a documented source of facts on which its conclusions are logically based. If, as the report avers, "we are spending for military purposes not \$80 billion, but far in excess," it would have been easy to justify such a statement. And it might have saved less space than was required by the tortuous logic that concludes interest on the Federal debt is a military expenditure. (The same logic makes wartime agricultural subsidies a military expenditure since everyone knows that an "army travels on its stomach.")

The report argues: "inefficient use of Defense Department resources has contributed to the demand for increased military expenditures * * * (and) as a consequence, there has been a misallocation of national resources." The report might as logically fault water pollution control efforts as responsible for misallocation of national resources in view of its charge of "inefficiency and inequities" in that civilian program and others cited in "Section 3, Civilian Budgets" which section is a rehash of previous hearings on "Economic Analysis and the Efficiency of Government."

To the extent that the current report takes a stand for closer scrutiny by Congress of Federal budgets, none can fault it. But the inference that waste and inefficiency in civilian programs is a less serious "misallocation of national resources" than waste and inefficiency in military budgets is another matter.

The report devotes its largest section to "Section 2, The Soviet Military Budget" based on 2 days of hearings from eight experts. Such a

cursory review could not and should not conclude much about how we should allocate our resources. And a careful reading of the last paragraph of that section indicates the report did not conclude anything. But it makes a patently obvious statement that one might carelessly misread as a very significant conclusion: "Expenditure of unnecessary sums for defense leads to misallocation of our own resources and therefore weakens this Nation in the long run."

Doesn't "expenditure of unnecessary sums" for any purpose do the same?

Recommendation 3 in the report has nothing in the report to substantiate it. It calls for a 1971 reduction of \$10 billion in defense expenditures. That may have merit from the standpoint of economics or national security—as well as its obvious political merit—but on what basis? Certainly not on the basis of 2 days of hearings on the Soviet economy. If it is based on waste or inefficiency in military spending, where did the \$10 billion figure come from? Why not \$15 billion or \$20 or \$5? Or why not spend exactly what we are spending but do it efficiently and get more for our money? And if such a reduction in military spending is arrived at by osmosis from these hearings, where is the recommendation for "civilian budget" cuts to be drawn from section 3 of the report or the hearings that are behind it?

Perhaps the subcommittee in its hearings just bit off more than it could be expected to chew. But that is no reason to swallow whole this report that seems based more on the "in" political attitudes of the moment than on any logical conclusion from hard evidence. Recommendations one and two have merit. Considerable hearing time was spent developing solid evidence for recommendation 1, although little of it is referred to in this report. If the Armed Services Committees and Foreign Affairs Committees of both Houses are doing their job, recommendations 1 and 2 are being accomplished. Much of their work is, of necessity, classified. Can the Joint Economic Committee really assess this question—except after the fact? The Joint Economic Committee has performed a worthy service with its cost overrun explorations in hearings for this report. Other more specific suggestions to the Defense Department might have been anticipated and would have been more worthy than recommendations as general and obvious as 1 and 2.

I doubt the competence of the General Accounting Office to accomplish what is recommended in No. 5 in terms of assessing weapons systems. But certainly continual oversight of all Federal procurement is needed, not just by the General Accounting Office in specific cases, but by oversight subcommittees of appropriate committees of Congress and by the recently established special Commission on Government Procurement.

Recommendation 4 is of academic interest and would be helpful primarily to give economists a subject for cocktail party discussion, e.g., "Do the Department of Defense grants for study of fruit fly procreation belong in the defense budget, or in education, or in agriculture?"

The hearings of the subcommittee were in large measure worthy. They received much public attention. It is surprising that this report has so little substance.