

MEMORANDUM

SUBJECT: Country Policy Planning and Program Budgeting

We now have had considerable experience in experimenting with alternate ways of trying to prepare country program budgets and relating them to analyses of major policy alternatives. I believe that it is possible to draw some relatively definitive conclusions about how we should proceed.

1. Efforts to relate policy planning to country program budgeting and to do country budgeting should be restricted to the small number of countries in which the United States has a major interest and in which our programs are relatively large. An initial list might consist of Korea, Taiwan, Laos, the Philippines, Turkey, and Greece. Other possible candidates would be Jordan and Brazil. All countries included under the SIG FIDP action list should be included.

2. Program budgeting should be limited to the actual transfer of resources from the U.S. to the host country. MAP, AID, FMS, and PL-480 should be included, but not programs such as USIA which are directed at the country. In cases where U.S. forces are deployed, or might be deployed, trade offs with U.S. Defense budget expenditures should be examined also.

3. Program budgeting needs to be done as part of a single study which also considers policy alternatives. The procedure which was followed in the case of Korea of preparing a policy study with a follow-on program budgeting study is clearly less than optimum. It is impossible to make sensible policy choices without knowing what the budget implications are. It is equally difficult to consider budget options without relating them not only to their effects in the country, but also to U.S. policy objectives. Thus, a single team must have responsibility for producing a single product which deals both with budget alternatives and policy issues.

4. Country policies and budget studies should be performed by a permanent, full-time, interagency staff. Putting responsibility for all of the studies into a single staff will produce a number of economies. Having the staff be an interagency one reporting to the SIG should reduce the problems of getting concurrence in the studies from the relative bureaus and agencies. The SIG would send the studies to the relevant IRG for comment before acting on them. It might, however, be desirable to amend the SIG NSAM, specifically directing the SIG to set up a staff to carry out these studies.

5. The country policy and program studies must become the vehicle for actual budget decisions with reference to these countries. There will clearly be major bureaucratic problems because of the need of each agency to relate

its requirements for any one country to its overall budget level and Congressional appropriation. However, the current practice of determining analogous levels for a country independent of the decisions being made at the same time on AID levels is clearly undesirable. It should be possible to use the SIG as a basis for determining desired levels in all categories for the countries under consideration and require the agencies to come back to the SIG if their overall budget restraints require them to recommend a reduction in the approved program. Since budget restraints usually require trade offs among these countries, the planning and programming staff and the SIG should play a role in making these adjustments.

Our experience to date suggests the clear utility of country program budgeting if it is combined with policy analyses. There is, I believe, a sufficient base of experience to move forward now to the creation of the proposed staff and the adoption of the necessary procedures to implement this plan of action. While recognizing that this is a decision for the next Administration, I believe it would be useful to staff a memorandum along the lines of the above proposal to the SIG, after discussion in the existing interagency committee, to determine if there is a basis for an agreed recommendation from the current members of the SIG to their successors that a program along these lines be instituted early next year.

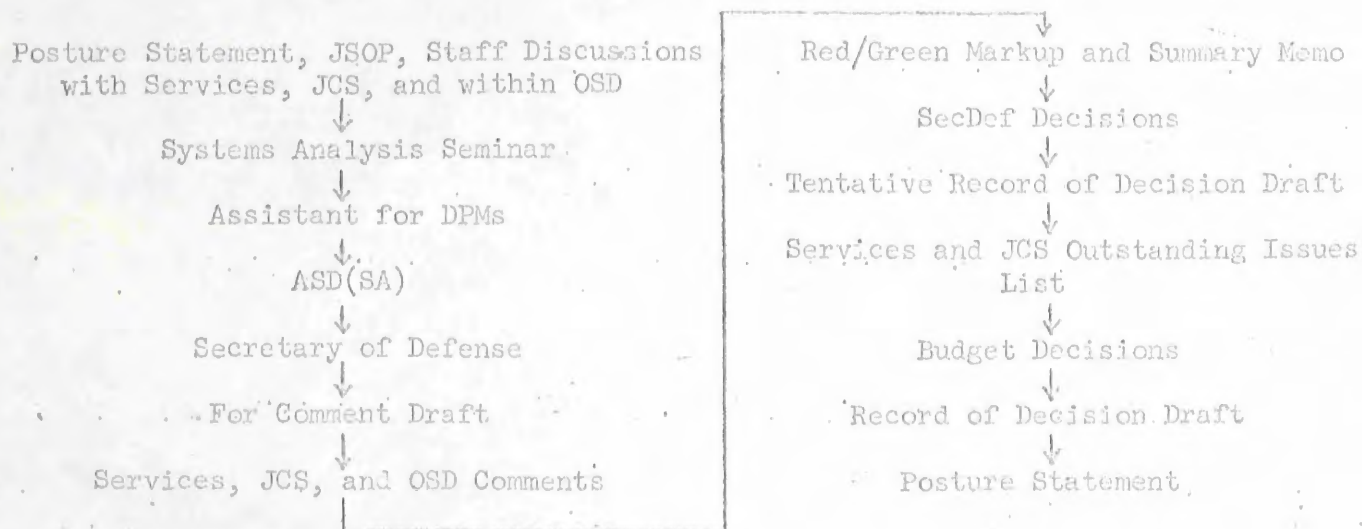
DRAFT PRESIDENTIAL MEMORANDUMS (DPMs)

1. Logistic Guidance
- X 2. NATO Strategy and Force Structure
3. Asia Strategy and Force Structure
4. General Purpose Forces
- X 5. Land Forces
6. Tactical Air Forces
- X 7. Escort Ship Forces
8. Submarine, Anti-submarine, and Destroyer Forces
9. Amphibious Assault, Fire Support, and Mine Countermeasures Forces
- X 10. Naval Replenishment and Support Forces
11. Mobility Forces
- X 12. Strategic Offensive and Defensive Forces
- X 13. Theater Nuclear Forces
14. Nuclear Weapons and Materials
15. Research and Development (DDR&E)
16. Military Assistance Program (ISA)

SECRETARY OF DEFENSE GUIDANCE MEMORANDUMS (DGMs)

- X 1. Indirect Support Aircraft
2. Manpower
3. Pilot Requirements, Inventories, and Training
4. Shipbuilding

OUTLINE OF DPM PROCESS



MEMORANDUM

SUBJECT: The Role and Functions of the Secretary of Defense and the Department of Defense

This memorandum outlines the role and functions of the Secretary of Defense and the Department of Defense (DOD). It describes the situation as it existed under Robert McNamara and as it exists under Clark Clifford. The current situation differs markedly from that of eight years ago; a return to the situation in which the Secretary functioned essentially as a business manager is difficult to envision.

The Memorandum focuses particularly on the role of the Secretary and the Office of the Secretary of Defense (OSD) in the formulation and execution of national security policy. It deals also with the role of the Joint Chiefs of Staff (JCS) and the Service Secretaries. Finally, a reorganization of the top level of the Department is suggested designed to reduce the burden on the Secretary and leave him with the necessary time for his role as a major Presidential adviser on important foreign policy issues.

Secretary of Defense. The Secretary of Defense is the principal adviser to the President on all matters arising within the Defense Department. Both McNamara and Clifford, under Kennedy and Johnson, have functioned as one of the President's three or four closest advisers on all security matters. Provided that the Secretary is prepared to take a position on substantive military matters and provided that he has a source of advice in addition to the Joint Chiefs, the President will find it difficult to ignore his advice and accept the views of the Chiefs. From the President's perspective, one of the most important jobs of the Secretary is to shield him from the excessive demands of the Chiefs. The Chiefs must come to expect that the President will support decisions of the Secretary or they will appeal more and more decisions requiring the President to take the heat. Under McNamara and Clifford the Chiefs have appealed very few issues formally to the President, although the President has always wanted to know what their views are on key matters, including, of course, the war in Vietnam.

In addition to his role as an adviser to the President, the Secretary is responsible for managing the Department and making an incredible number of force structure and budget decisions about the size and characteristics of our military forces. He is also in the operational chain of command from the President to the field commander for combat operations. In addition, he is a member of the key NATO committees and plays a major role in shaping NATO strategy and seeking to win the support of other European governments for U.S. views.

The division of the Secretary's time depends on his personal interests and the circumstances. In his first years, McNamara spent most

of his time on force structure and budget issues. He devoted a considerable amount of time to NATO matters, strategic nuclear forces, and Vietnam. Clifford has spent relatively little time on force structure issues, and has devoted himself to Vietnam and the small number of other issues of concern to the President or Congressional leaders.

Deputy Secretary of Defense. Under both McNamara and Clifford the Deputy Secretary has functioned as a complete alter ego of the Secretary. Papers which he signs carry exactly the same weight as papers signed by the Secretary. The Deputy sits in on most meetings which the Secretary holds, and frequently accompanies him to NSC and other large White House meetings.

There are major differences in the way Paul Nitze functions under Clifford and the way Nitze and the previous Deputies worked with his predecessor. McNamara used his Deputy for certain specialized functions to be described below, delegated to him the purely administrative functions, and gave him special assignments. In addition, McNamara left the job of conciliating the Joint Chiefs and making compromises with them when necessary to his Deputy. Clifford, on the contrary, has assumed much of the role of dealing with the Joint Chiefs of Staff, but has delegated to Nitze most of the job of making Force structure and budget decisions, freeing himself largely for Vietnam and for dealing with matters of concern to the President.

This procedure, while of value for the Secretary, has left Nitze greatly overburdened because he has had to continue to perform a host of other duties on interagency bodies -- some created ad hoc to deal with particular international crisis and some permanent and created by various Executive orders. The two most important of such regular assignments are the Deputy's membership on a number of committees dealing with various matters relating to intelligence and his membership on the Senior Interdepartmental Committee (SIG).

The SIG, and the Interagency Regional Groups (IRG's) which report to it, is a potentially very important mechanism for interagency coordination and for permitting OSD to play a major role in shaping foreign policy. The SIG is chaired by the Under Secretary of State, and includes the Chairman, Joint Chiefs of Staff, the Director of Central Intelligence, and the President's Special Assistant for National Security Policy. Neither George Ball nor Nick Katzenbach have used the SIG very extensively, but it has played a major role on such questions as U.S. policy on intervention in cases of insurgency, U.S. military aid to Greece following the clup, and the recent Spanish Base negotiations. While the SIG, in some sense, was designed to increase State's influence over the foreign policy machinery, its most important effect is, in fact, to regularize and legitimize a greater OSD (and Joint Staff) role. Moreover, the very fact that there was universal agreement on the need to find a mechanism to increase State's influence testifies to the major role of OSD in shaping foreign policy decisions.

Because of the pressure of time Nitze's involvement in foreign policy issues has been limited to Vietnam and to issues that come before the SIG or other interagency committees on which he sits.

Office of the Secretary of Defense. The Office of the Secretary of Defense consists of nine Assistant Secretaries (ASD) and several Special Assistants. The ASD's function as Staff to the Secretary. With few exceptions noted below, they cannot over-rule the Joint Staff, but must take issues in dispute to the Secretary or Deputy. Over time the military have learned that McNamara or Clifford, or their Deputies, will support the ASD's and, on many issues, accept the rulings of the ASD.

International Security Affairs. ASD(ISA) and his office are the principal points of contact between the Defense Department and the State Department. By directive, the military must deal with State through ISA. While there is, of course, much informal conversation between State and the military, all formal actions and real policy negotiations take place through ISA.

ISA has been described as the "State Department of DOD." It is certainly that, and in many areas plays a greater role than State. ISA's functions are essentially:

1. To advise the Secretary and the Deputy on foreign policy matters to prepare them for participation in interagency meetings.
2. To represent OSD on various interagency committees, including the Interagency Regional Groups (IRG's) and to deal with State and the White House Staff informally on interagency matters.
3. To provide to other ASD's, as well as the Secretary and Deputy, advice on the foreign policy implications of force structure and budget decisions.

The ASD(ISA) and his staff play a role in a very large fraction of all major foreign policy decisions. What issues he gets into depends partly on logic and partly on tradition. The ASD(ISA) administers the Military Assistance Program (MAP) and, hence, is involved in all matters which involve the question of how much MAP and what kind. A surprisingly large number of questions, from how we react to military coups to our role vis-a-vis the new Indonesian Government to our overall relations with Latin America, involve MAP policy questions and, hence, ISA plays a major role. ISA is also involved in all policy issues in which the use of U.S. forces may be involved, i.e., all international crises.

There are a small number of important foreign policy issues in which ISA and the Secretary have played a relatively minor role, or none at all. Three key issues which come to mind are UN membership for Communist China, the Alliance for Progress, and International Financial Policy. However, even in these areas ISA and the Secretary have had some handle on the problem because of their involvement in the more general question of relations with China, Latin American policy in general, and in the case

of financial policy, the Balance of Payments implications of U.S. forces stationed abroad.

In general, the limits of ISA and Secretarial involvement in foreign policy issues has been the time and interest of the principals rather than resistance from other agencies. Of course, a strong and assertive Secretary of State with effective Assistant Secretaries could somewhat limit ISA's role, but fundamentally State needs ISA to deal with the military and too many interests in State and the White House benefit from ISA involvement for any effort to curtail its role to be successful.

On these issues in which ISA is involved, it has tended to play a very major role. The ASD(ISA) benefits from the fact that he can take issues to the Secretary or Deputy without first getting the many clearances which a State Department Assistant Secretary needs. Moreover, because he deals across the board with all countries and issues he has a better feel for world-wide priorities. The ISA Staff, over the past eight years, has been of consistently higher quality than State, and has not been affected by the rigidity and conservativeness which characterizes State Department planning.

On Vietnam, on nuclear relations with the Soviets, on NATO strategy and Force levels, on U.S. post-Vietnam Asian policy, on relations with Japan, and on many other matters ISA has been the main source of innovation. In some cases it has built a consensus for new policies; in other cases, with the support of the Secretary, it has imposed new policies on the State Department.

Systems Analysis. The creation of a Systems Analysis Office was McNamara's most important innovation and he, and now Nitze, have relied on the ASD(SA) and his Staff for advice and analysis on all force structure and budget issues. In addition, SA has worked closely with ISA in providing analysis on foreign policy related issues such as the effectiveness of the bombing of North Vietnam, or the appropriate level of military assistance to Korea.

SA has been called a civilian general staff. And, although it is about 50% military, the description is an apt one. SA provides the Secretary with an independent judgment of all force structure and budget questions based on systematic quantitative analysis and an overall -- as distinct from a Service -- perspective. SA was first set up as part of the Comptroller Office and became a separate unit under Alain Enthoven when McNamara's first Comptroller, Charles Hitch, left DOD. The most important output of SA is a series of Draft Presidential Memoranda (DPM) which lay out a strategy in such areas as strategic offensive and defensive forces, air and sealift, logistics guidance, naval forces, and then on the basis of the strategy makes budget discussions based on JCS and Service proposals.

The DPM's provide the Secretary with a basis for making an independent judgment on such questions as whether or not aircraft carriers should be nuclear, or whether we need a new manned bomber. It also enables him to implement proposals which are not supported by the military. No longer is he limited to establishing arbitrary budget ceilings and permitting each Service to spend its money as it chooses.

Public Affairs. The ASD(PA) has responsibility for the entire public affairs apparatus of DOD. No military service or command can make public any information, or release a speech or statement without it being cleared by ASD(PA). This office can and does over-rule the military departments and has established reasonably effective control over press leaks. The ASD(PA) serves as the Secretary's principal adviser on public affairs matters.

Defense Research and Engineering. The Director of Defense Research and Engineering is in protocol terms the number three official in the Department of Defense; in fact, he functions at the ASD level. The DDR&E is responsible for supervising the entire Research and Development effort of the Defense Department and is the principal scientific adviser to the Secretary. Both of the DDR&E's in the past eight years -- Harold Brown and Johnny Foster -- are former Directors of Livermore Laboratories, a major AEC installation. The DDR&E and his Staff work closely with the Service R&D Staffs in managing the on-going research efforts of the Services. They also work closely with Systems Analysis in staffing those force structure and budget decisions which involve systems which are still in the development stage.

The key management tool of DDR&E is now the Development Concept Paper in which the reasons for any R&D project are spelled out and conflicting views clearly stated.

The DDR&E analysts have tended to be more conservative than those in Systems Analysis, and have frequently provided the Secretary with conflicting evaluations from his own staff.

Comptroller. The Comptroller and his Staff perform the relatively routine budget preparation and accounting functions of the DOD. When Hitch was the Comptroller and Systems Analysis was part of his shop, the office had an important policy role. Since then the function is primarily to translate the budget decisions made in the DPM's and other documents into detailed Program Change Documents for formal approval by the Secretary or Deputy, and to maintain the statistics on the Five-Year Force Plan.

Administration. The ASD(Admin) is the principal adviser to the Secretary on management problems and reorganization proposals, as well as being responsible for the internal administration of OSD. This office played a major role in the creation of the Defense Agencies, including the Defense Intelligence Agency, in the early 1960's. Most recently its functions have become largely routine, but its management staff would be useful in any additional reorganizations which might be considered.

Installations & Logistics. The ASD(I&L) works with the Services in supervising procurement and the operations of U.S. bases, both at home and abroad. The I&L base group has been responsible for developing plans to close a large number of U.S. bases over the past eight years.

Manpower. The ASD(M) is the Secretary's principal adviser on the administrative matters relating to health, education and welfare of civilian and military personnel. Policy issues relating to the size of U.S. forces is the responsibility of Systems Analysis.

General Counsel. McNamara used the post of General Counsel for a senior special assistant to deal with special projects. The two ASD's (ISA) who followed Nitze both came to the job from the General Counsel's Office. The job is now vacant. The legal work is handled by the Deputy General Counsel and his staff.

Special Assistants. The Secretary has one general Special Assistant -- called The Special Assistant--and Special Assistants for Legislative Affairs, Atomic Energy, and preparation of Congressional testimony. The incumbents of each of these positions have performed varied functions, depending on the desire of the Secretary.

Joint Chiefs of Staff. The Joint Chiefs of Staff's system consists of several identifiable components: (1) The Chairman, JCS, (2) The Joint Chiefs, (3) The Joint Staff, and (4) The Service Staffs which work on JCS matters.

The Secretary's relations with the Chairman and the Chiefs is a delicate one and largely a matter of personal style. The Secretary will normally meet with the Chairman frequently to discuss key issues in dispute, although McNamara, to a considerable extent, and Clifford, to some extent, have relegated this function to the Deputy. McNamara avoided working sessions with the Chiefs; Clifford tends to hold them.

Chairman, Joint Chiefs of Staff. The Chairman of the Joint Chiefs, as an individual, sits on virtually all of the major interdepartmental committees. He is a member of the SIG, the NSC, and other committees, and has in the last few years been included in President Johnson's Tuesday lunch group. On many issues being discussed by these committees, the Chiefs will have taken a formal position and the Chairman will feel obliged to report it; he also, however, presents his own views, which, in many cases, have been coordinated with the Secretary or the Deputy. The power of the Chairman is considerably less than in the 1950's, since his civilian superior is not only present, but frequently expresses separate views. Asking the President to over-rule the Chiefs is considerably easier when it is not a State versus Defense issue, but rather the President's two principal civilian advisers with an overall perspective against the military judgments of the Chairman. As indicated above, on many issues the Chiefs will not press their position to the President in the face of a forceful and well-argued position by the Secretary.

Joint Chiefs of Staff. The Joint Chiefs of Staff, as a body, state their views on major matters in the form of JCS Memorandums (JCSM's) directed to the Secretary. During the 1950's the Chiefs split more often than not on key issues, forcing the Secretary to make arbitrary judgments since he had no independent advice to use in choosing. One of the consequences of the McNamara revolution is that the Chiefs almost never split. This does not mean that JCSM's now represent an integrated military judgment. On the contrary, it simply means that the Chiefs now feel under great pressure to hide or compromise their differences. On budget matters they simply support all of the "requirements" of each Service; on policy issues they tend to defer either to the Service most concerned, or to the Commander-in-Chief of the area. Frequently, the price of support is something for the other Service in the same or another paper as when JCS support for a new naval facility depends on adding on a less needed Air Force facility, or when JCS support for Army deployments depends on simultaneous support for the deployment of air and sea units.

Except for the basic documents on budgets and strategy which the Chiefs produce annually, most of their positions are taken as a result of requests from the Secretary of Defense for their views. Before making a decision or recommendation to the President, the Secretary almost invariably seeks the views of the Chiefs. He sometimes simply asks their

views ("What strategy in Vietnam should we have for the next year?"), or he may send them a paper reflecting his tentative views and asks for their reaction ("Attached is a recommendation on bombing which I plan to make to the President"). In either case, responsibility for drafting the JCSM will be assigned to a Joint Staff action officer. If the problem primarily concerns a single geographic area, the views of the CINC will be sought and in most cases supported by the Chiefs. If the problem relates primarily to one Service, the Joint Staff action officer will tend to defer to his counterpart from the Service Staff. Where more than one Service is involved, the Joint Staff officer acts as a broker attempting to develop an acceptable compromise. On major issues, the compromising is left to the Chiefs themselves.

JCSM's addressed to the Secretary go first to one of the ASD's for action. He will frequently consult other parts of OSD and his staff will talk informally to the Joint Staff. The ASD then gives the Secretary an analysis of the Chiefs' views and a recommendation. Seldom is the first product of the Chiefs on a key issue satisfactory. In some cases, the staff will recommend a memorandum to the Chairman overruling the Chiefs and explaining why. In other cases, the recommendation will be that the Secretary or the Deputy talk to the Chairman to ascertain how strongly the Chiefs feel about the issue and, if necessary, to work out a compromise that the Chiefs can live with. In other cases, particularly on matters going to the President, the recommendation will be to go back to the Chiefs to ask additional questions ("I do not understand why ..."), or to give the Chiefs an opportunity to comment on the recommendations of the Secretary, taking account of their views.

In the end, only in a small number of cases in which State supports the Chiefs, the issue is a relatively narrow one relating to combat operations or tactics, or where the President feels strong Congressional pressures, does the Secretary fail in having his way against the Chiefs on matters on which he feels strongly.

Service Secretaries. The last eight years have marked a steady and irreversible decline in the power and influence of the Service Secretaries. By law the Services are limited to training and logistic functions. The Services' military staffs play a major role in policy matters through the Joint Chiefs, but the Secretary has no base from which to involve himself on policy issues. He is limited for advice and expertise to his Service staff; his support of a Service staff view can in most cases be taken for granted and adds little weight to the position. Thus, his role is largely an administrative one.

Far from fearing the influence of the Service Secretaries, McNamara tried hard, but with very limited success, to expand their role. He put some of his ablest assistants into Service Secretary slots -- Nitze, Brown, McNaughton, and others -- hoping that they would be able to take

some of the heat and bring their Service around on various questions. Brown has succeeded to a remarkable degree, but only because of his own background and ability, and because the Air Force is the easiest Service to control. But even in his case, Brown is in no way a threat to the Secretary's power, does not have access to the President, and functions in effect as a key Assistant Secretary whose views must be taken into account.

The Service Secretaries are then mainly administrators and to some extent, in effect, part of OSD.

Changes in the Structure. A number of changes are possible and probably desirable. Only one is sketched here -- creating a second Deputies slot and downgrading DDR&E to Assistant Secretary level. Under this proposal, designed to leave the Secretary with more time for his role as a Presidential adviser while enabling him to maintain tight control of DOD, the two Deputies would have the following functions:

The Deputy -- would be the Number 2 man and would act in the absence of the Secretary. He would have a technical background of some sort and would have primary responsibility for force level and budget decisions. He would also manage the R&D program through the newly created ASD(R&D). He would manage the DPM and DCP process, and would supervise the budget preparations and procurement.

The Deputy for Policy and Plans -- would be the Number 3 man and would act in the absence of the Secretary and Deputy. He would be responsible for the external relations of the Department, sitting on the SIG and other interagency committees. He would also deal with special problems, notably the initial period in the Vietnam War and Arms Control negotiations with the Soviets.

Both Deputies would have full power to act for the Secretary as the Deputy now has.

7 October 1968

Defense Intelligence Agency. One of McNamara's most important innovations was the creation of a series of Defense Agencies which service all of DOD and report to the Secretary and the Chairman. The most controversial of these agencies is the Defense Intelligence Agency (DIA). This group was formed by merging most of the Pentagon staffs of the three Service intelligence groups with the existing small intelligence staff in the Joint Staff. DIA is now the principal source of intelligence for the Chiefs and the Secretary. The Director of DIA sits on the United States Intelligence Board (USIB) for Defense and participates in writing the agreed interagency intelligence estimate (known as National Intelligence Estimate (NIE) or Special National Intelligence Estimate (SNIE)). The Service intelligence chiefs are not formally members of USIB, but they can and do indicate their dissent from NIE's in footnotes.

The creation of DIA has reduced the influence of Service political pressures in shaping military intelligence judgments. From the OSD perspective, DIA is still a creature of the military and slants its positions accordingly; it also is much less competent than CIA in most areas. Nevertheless, it does produce a much more reliable product than the Service intelligence groups and can frequently play off conflicting Service pressures in producing professionally competent analysis.

The Services would like to see DIA abolished so they can once again have three votes on USIB and so that they can more easily shape intelligence judgments to fit their policy objectives.