Seminar on Intelligence, Command, and Control

Perspectives on U.S. Intelligence
Arnold E. Donahue

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Perspectives on U.S. Intelligence

Arnold E. Donahue

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Oettinger: I will dispense with long introductions, since you have all had a chance to look at our speaker's biography. I just want to underscore that for him it's kind of a homecoming because he was in the National and International Security Program at Harvard, and so we welcome him back with pleasure. He's declared himself to be interruptible with questions from the start. With that, I turn this over to today's guest, Arnold Donahue.

Donahue: Thank you, Doctor. The bio should have said that as a young man I was interested in foreign affairs. I went to Georgetown University as an undergraduate and said, "I think I should study at your Foreign Service school." The good Jesuits took one look at me and said, "No, you don't belong in a trade school. Go to the liberal arts college, and major in history." I was rejected by the Fletcher School because I'd had too much philosophy and religion, I think, along the way, being from a Jesuit

school. I then went to Princeton, to the Woodrow Wilson School, for two years, and tried to get a more solid background in politics and economics. I still was interested in foreign affairs, but sort of opted out of a Foreign Service job and in 1962 went into intelligence instead. I spent five years in the CIA, and a little time in Vietnam in the course of that.

I then spent 27 years in the Office of Management and Budget. A fair amount of it was as chief of the intelligence branch, which, through the years, accumulated a lot of other miscellaneous functions, like those we were talking about at lunch: drug control, terrorism and counterterrorism activities. I picked up a lot of the Air Force white space budget along the way—not the black space budget. So I had a career in intelligence in a sense, most of it from the perspective of the White House, the Executive Office of the President, particularly the OMB budget cycle.

The major decision in coming up here

was what tie I was going to wear. I had seen Tony Lake when he was at Princeton receiving the Madison Award on February 22. Tony had worn a blue and red, I think, National War College tie. I said, "Gee, that seems to be the wrong color. You should be wearing orange and black." So I thought I would wear my Princeton tie because I was coming up to Harvard.

Tony's opening comment, when he accepted this award on February 22nd, was that he had gone to Harvard as an undergraduate, and then gotten a Ph.D. from the Woodrow Wilson School when he left the White House, the National Security Council, in 1970. He was in the midst of his confirmation battle, in terms of whether he was going to become Director of Central Intelligence, so he couldn't say much. He said, "When I was up at Harvard, I learned that you can easily tell a Harvard man, but you can't tell him very much. Now I'm a Princeton man, and I can't tell you very much." He proceeded to open up to a panel discussion, which then jeopardized his candidacy.

After Tony decided to opt out of the role of being DCI, George Tenet came along. He happened to graduate from the Georgetown Foreign Service School. So now that we have George Tenet, I decided to opt for a blue and gray tie, the Georgetown colors, rather than Harvard or any other.

For lack of any better term, I have titled this presentation "Perspectives on U.S. Intelligence." I was going try to cover five subjects (figure 1). For the last two there are probably more vugraphs than you can

- **Budgeting**
- **Management**
- **Policy**
- **Legislation**
- **Missions**

Figure 1
Perspectives on Intelligence

handle, and we may not get through those. I'll probably spend more time on the first three issues.

First, budgeting. I began in the Office of Management and Budget when it was still the Bureau of the Budget (BOB). In fact, the first trip I took in 1968, which was to the Pacific, I visited something called a VQ Squadron, which was a recce squadron at Atsuge, Japan. The message had gone out, "Sam Jones, Arnold Donahue, BOB examiner, and Pete Smith are going to visit the VQ Squadron." When we showed up, the security officer said, "Thank God Bob Examiner isn't here, because we could never get a clearance on him." That's my one BOB story.

Budgeting is still, of course, the dominant force in the Office of Management and Budget. But it's now got that word "management" in it, so I thought I'd talk a little bit about management. When BOB converted to the Office of Management and Budget, we were told, "You're not supposed to be involved in policy anymore. You're just supposed to be dealing with how to implement it in terms of budgeting and managing it, but not be involved with policy making." In real life, dollars drive things in Washington, in case you people didn't know. We were still involved in policy, so I was going to talk a little bit about that.

Back in the 1930s, OMB (or BOB) got the clearinghouse function for all legislation. If the administration or the executive branch of government is going to sponsor some legislation, it clears through the Office of Management and Budget first. So we run it through all the other departments and agencies that might have relevance with respect to that legislation, getting their views, and making sure that they're all aboard. Conversely, if Congress sends us a bill, asking for the administration's view on it, we will ship it around and get the views of all the executive branch people. So I thought I'd just talk about legislation and Congress a little bit. We're sort of a key intermediary there.

Last, although it really isn't an OMB function, I thought I'd talk a little bit about intelligence missions for the future. It's an area that is still very much under debate and

needs some consideration. I have some thoughts that I wanted to share with you.

Budgeting (figure 2). I worked in a place called the Office of Management and Budget, and, as I said, the primary focus
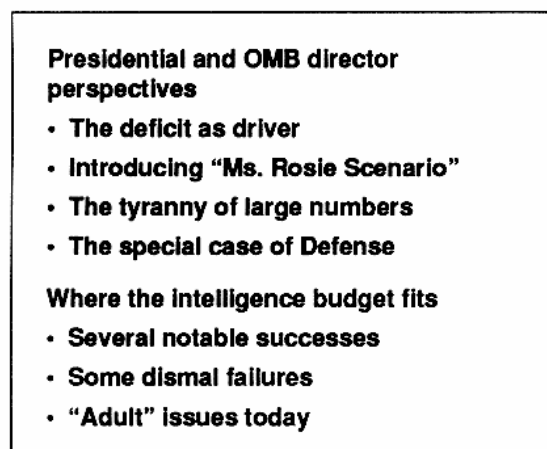

Presidential and OMB director perspectives

- **The deficit as driver**
- **Introducing "Ms. Rosie Scenario"**
- **The tyranny of large numbers**
- **The special case of Defense**

Where the intelligence budget fits

- **Several notable successes**
- **Some dismal failures**
- **"Adult" issues today**

Figure 2
Budgeting

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was budgeting. But to understand what budgeting involves, I think you've got to take it from the perspective of the President and the OMB director more than you'd take it from somebody running an intelligence branch two or three levels down. What they're concerned about, in terms of my career, is, first of all, the deficit. It is the driver of what they're worried about. They're worried about making those books look more balanced. One of the ways to do that is something called "Ms. Rosie Scenario," and I'll introduce her in a minute. It has a lot of the tyranny of large numbers about it. Here I'm dealing with a $30 billion intel budget (that's what the *Washington Post* says it is, anyway), but it's a small piece of a $1.7 trillion budget. Defense is sort of a special case within that. Almost all the intel budget is within Defense. I'll talk about where intelligence fits in that.

I had some successes and some failures in a 32-year career in this area, really 27 years in OMB. There were some things that I think I did great, and some things I think I did wrong. I'll also mention what we call, for lack of a better term, some tough "adult" issues of today: things you

wouldn't want kids to play with, but probably adults shouldn't either.

Deficits (figure 3). I joined OMB in 1967, and in my 27-year career there (the chart goes beyond that, because I retired in 1994) the story is one of deficits. One year in there, 1969, President Nixon came in and said, "I really going to shake this thing up. I'm really going to cut the deficit, and I want to balance the budget." And he did. We had, I think, a $50 million surplus which, translated into constant dollars, ends up as something more in this chart.

My story of working in OMB is primarily one of dealing with deficit planning and trying to come to grips with that. Presidents and OMB directors have always been worried about this sort of thing. It got a lot worse in the 1970s because of the shocks of the oil prices and inflation. It got worse in the 1980s with the Reagan Revolution and the buildup of the defense budget, but also the tax cuts, which probably generated the bulk of about $200 million of this deficit increase in the early 1980s. It's been with us ever since, and it's still a hot political football. The balanced budget amendment is something that you'll probably be seeing for a long time to come.

The present director is worried about this, and the easiest solution to come to about how you solve that deficit problem is something I call "Ms. Rosie Scenario," but then some people call it "smoke and mirrors" (figure 4). The best way to do it is to say, "My gross domestic product, my economy, is going to grow a lot faster."

You want to tell the Congress that the economy is going to grow fast. First of all, it's not very wise politically to say that you're running the country and it's going to go slowly, but it also helps you a lot with deficits. In addition, it helps you a lot to say, "Gee, I think interest rates are going to go down," particularly since we're sitting there with $5 trillion worth of debt, and we have to figure those interest rates on a fair amount of money. These on the chart are short-term interest rates. You'll notice it in the 1998 budget, but if you go back and look at budgets for 20 years, you're going to find this same phenomenon—economic growth high, interest rates low—because that's a nice scenario to deal with budgets.
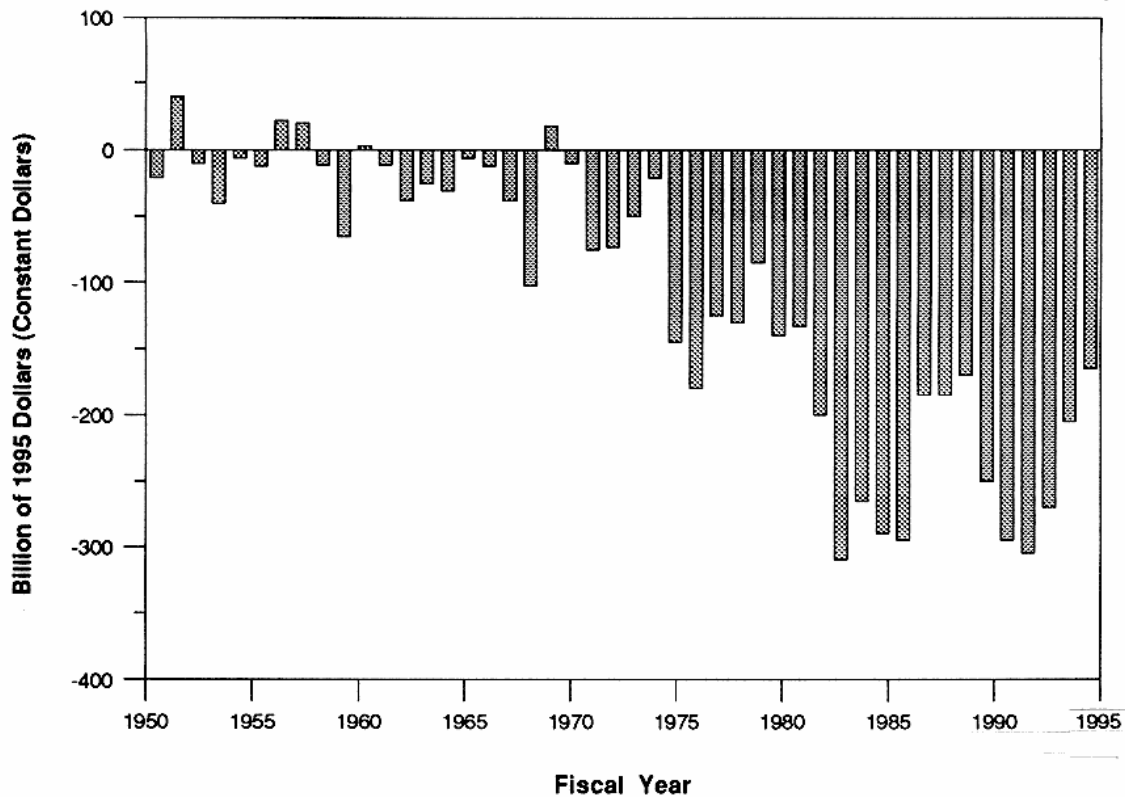
Figure 3
Budgeting: Federal Surpluses and Deficits, Fiscal Years 1950–1995

	Projections (Calendar Years)					
	1997	**1998**	**1999**	**2000**	**2001**	**2002**
Real GDP (chain-weighted)						
CBO January	2.1	2.1	2.2	2.2	2.1	2.1
1998 Budget	2.0	2.0	2.3	2.3	2.3	2.3
Chain-weighted GDP Price Index						
CBO January	2.4	2.6	2.6	2.6	2.6	2.6
1998 Budget	2.5	2.6	2.6	2.6	2.6	2.6
Consumer Price Index (all-urban)						
CBO January	2.9	3.0	3.0	3.0	3.0	3.0
1998 Budget	2.6	2.7	2.7	2.7	2.7	2.7
Unemployment rate						
CBO January	5.3	5.6	5.8	5.9	6.0	6.0
1998 Budget	5.3	5.5	5.5	5.5	5.5	5.5
Interest rates 91-day Treasury bills						
CBO January	5.0	5.0	4.6	4.2	3.9	3.9
1998 Budget	5.0	4.7	4.4	4.2	4.0	4.0

Figure 4
Budgeting: "Ms. Rosie Scenario"—A Comparison of Economic Assumptions

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Why is that so? It's part of the tyranny of big numbers (figure 5). If you say your growth is 1 percent higher than you actually think it's going to be—if you say 3 percent rather than 2 percent, for example—then over a six-year period, from 1996 to 2002, you generate a $177 billion reduction in the deficit, so this $200 billion deficit would decrease pretty quickly. Similarly, if I say the interest rates are going to be lower, I can give you $37 billion worth of difference in the deficit, because I'm paying those interest rates out of my federal budget. With the combination of those two items, your $250 billion deficit goes away.

Oettinger: Could you stay on that chart for just a second? Can you say a little bit more about where, in the actual real world of OMB and the preparation that it seems to cover, the numbers ultimately come from? Do they come out of the Oval Office or the Executive Office, or do they come out of civil servants in the Congressional Budget Office? What's the nature of the rosy scenario? Where between innocent and conniving does it lie?

Donahue: More on the conniving than on the innocent side. It's always said that OMB is responsible for the expenditure side of the budget, the Treasury is responsible for the revenue side of the budget, and the Council of Economic Advisors is responsible for the deficit. The reason the Council of Economic Advisors is responsi-

ble for the deficit is because they come up with these economic assumptions that we just talked about.

What is the Council of Economic Advisors? It's a group of five political appointees, who sort of say, "Hey, if you want me to solve your deficit problem within the respectable discipline of economics that I've learned through these years, the way to do that is to increase inflation faster, and bring down the interest rates a little more."

Oettinger: That's chicken entrails!

Donahue: I'll go back to the previous slide (figure 4) for one second. This says that in 1997 inflation, as measured by the CPI, will be 2.6, and interest rates are going to be 5.0. That's a 2.4 real value of dollars that people are going to earn if they put money into short-term Treasury bills. But if you look here in the out years, it's 2.7 versus 4.0, a 1.3 percent difference. For some reason, in the year 2002 people are going to be satisfied with only a 1.3 percent real return on money, but they want 2.4 in this year. I'm not sure about that, folks! I'm not sure that you're going to be willing to reduce your interest income because inflation has been steady. It might happen. If I were enough of an economist, I could probably demonstrate this happened before, but it's not guaranteed that it's going to happen.

If you look through budgets (and I've looked through them for 27 years), you're

	Change in Deficit ($ Billions)						
	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
1% lower real GDP growth, 0.5% higher unemployment	8	30	53	82	109	143	177
1% lower real GDP growth, no change in unemployment	7	23	43	65	89	116	146
1% higher interest	5	15	22	27	31	34	37
1% higher inflation	-6	-17	-27	-36	-46	-58	-70

Source: FY97 Presidential Budget

Figure 5

Budgeting: Tyranny of Numbers—Sensitivity to Economic Assumptions

going to find huge differences on those economic assumptions, leading to what you've invariably seen in budget documents over the last 20 years: this tailing off (figure 6). Every time, the deficit is going to go down and down and down. This chart shows the Clinton 1996 number, but they're all saying, always, "Hey, we're going to solve the problem five years from now."

The way you solve the problem is that you increase the growth rate. You make your interest rates low because you're paying off on the debt, and you can solve any deficit problem. If you look at the 1998 budget (I haven't examined it in detail), the scenario might be real, but if you have a slight depression along the way, that scenario disappears in a hurry. But this is the way they've done it, and when you're a director of OMB or the President, that's what you tend to spend a lot of time on. You worry more about that.

We talked about the tyranny of large numbers. I just want to cite a few examples that I've experienced, in addition to these economic assumptions. First of all, if you take the civilian/military pay raise and you reduce it by 1 percent for federal government employees, civilian and military, you're going to save $1 billion. That can make a dent in the deficit number. You can take the cost of living adjustment and say, "I'm not going to make it 3 percent, like the inflation rate; I'm going to make it 2.5 percent," or, "I'm going to delay it by three months." You save hundreds of millions of dollars. You can take Medicare assumptions. What is the doctor going to charge in the year 2005 or the year 2000? Make an assumption about that, and change your outlays dramatically on Medicare. You can sell an asset. You can delay a $100 million federal building in Boston or some other city in the United States.

I was peripherally involved in two of them a couple of times. One was a relatively simple thing to do. If it turns out that September 30th happens to be a Saturday and October 1st happens to be a Sunday, when you're moving from one fiscal year to the next (because that's when the fiscal year changes), you just delay the military pay. It makes no difference to you, because

it just moves from one fiscal year to the next and ends up in your bank at the same time in electronic distribution systems. I think we saved $3 billion by that one day's movement. It's artificial because it immediately shows up in the next year, but if you wanted to get past the current year's problems, you could do it that way.

Another that I personally was engaged in was that for years we had transferred the CIA funds based on their *budget authority* from the Department of Defense. But they accumulated a lot of funds, so we switched that and the National Reconnaissance Office over to an *outlay* basis at one point. Those two changes were worth $1.5 billion of outlay. It had nothing to do with the substance of the programs, but it shows you the tyranny of large numbers under which budgets operate.

You have to look at intelligence within the context of what I call the special case of DOD (figure 7). First of all, DOD is a very big number. I don't mean to bore you with the long timeframe of it, but if you're talking intelligence at a number like $30 billion, it's within the context of roughly $300 billion. So you're just talking at the 10 percent range, and some of that isn't really accessible (figure 8). But you're talking very large numbers, although a large percentage of this is uncontrollable. About half of it is spending from prior year appropriations, so you can't really control that. A large chunk of it is salaries and operating costs, which in the current environment you'd want to protect. So there's not a lot of variability in there.

It's also relatively uncontrollable politically. How many years did we rate Soviet military power where we compared Soviet spending and U.S. spending and put them on the same line and sort of said, "Hey, politically you're going to be vulnerable if you reduce the amount of spending in the defense program?" So, it's politically difficult. As an intelligence person working on the intelligence budget, how many times did I face the question, "Do you mean we're going to give them some intelligence money to have one more B-1, or one more B-2, or one more carrier? Everybody knows we can get by with 12 carriers rather than 14, 10 rather than 12" ... or a lot of
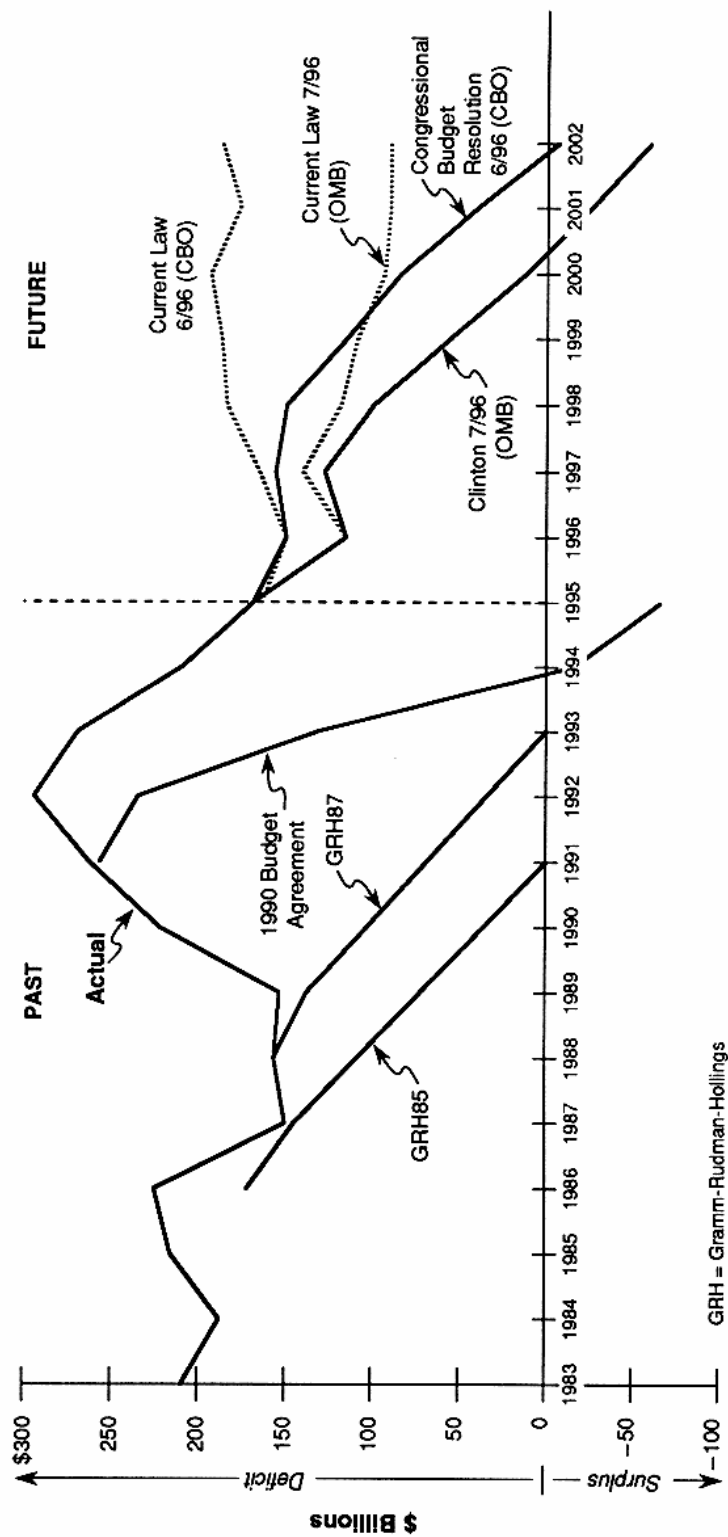
Figure 6

U.S. Budget Deficits 1983–2002:
Projected and Actual

GRH = Gramm-Rudman-Hollings

Percent Change					
1953–1970	1970–1975	1975–1980	1980–1985	1985–1989	1985–1999
-13%	-23%	+8%	+52%	-11%	-42%

Percent GDP								
1938	1954	1964	1968	1975	1980	1985	1995	1999
1.4%	10.9%	8.4%	9.5%	5.6%	5.0%	6.2%	3.7%	2.8%

Constant 1995 $ Billions

$500

400

300

200

100

0

$430

$352

$391

$347

FY 1995 Budget

$264

$235 $250

$252

$227

$120

Korea; Cold War; Vietnam Era

Post Vietnam Draw-down

Ford and Carter

Reagan Build-up

Gramm-Rudman Era

Post-Cold War

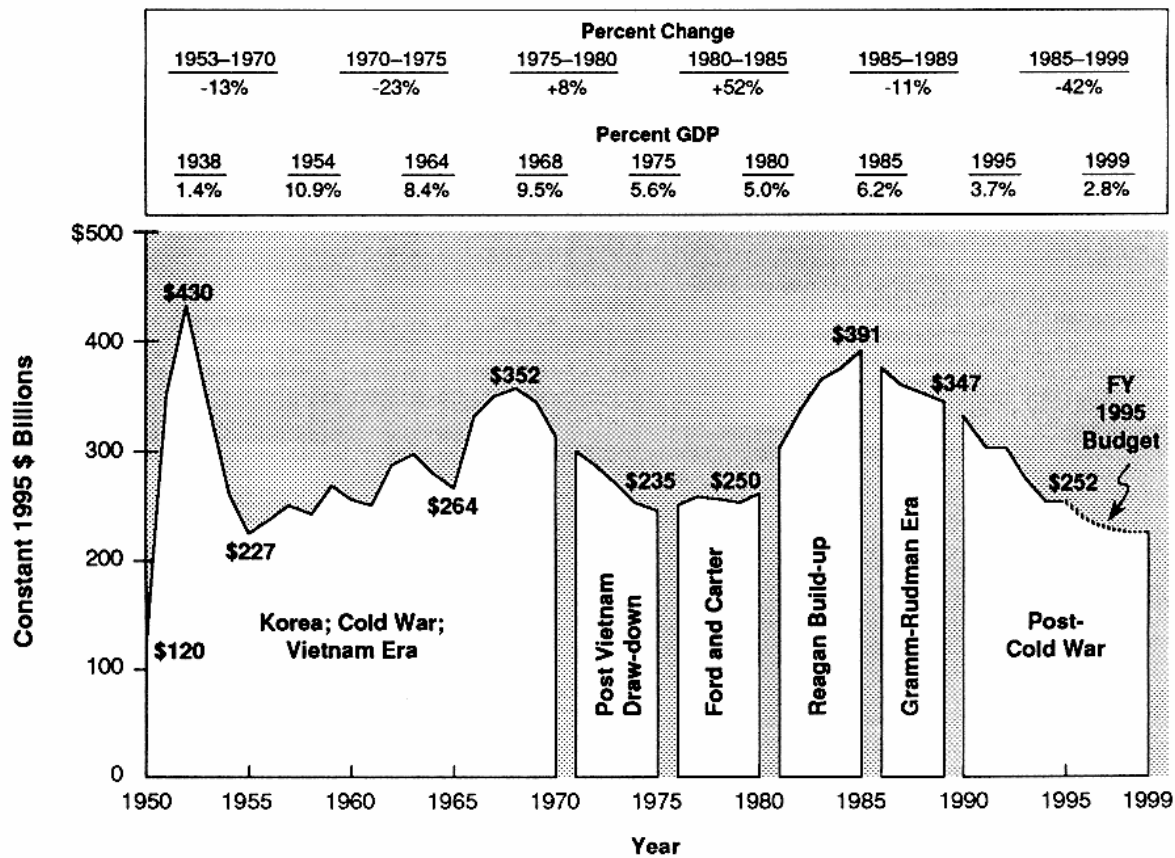1950 1955 1960 1965 1970 1975 1980 1985 1990 1995 1999

Year

Figure 7

Budgeting: The Special Case of DOD

- **A very small of the bigger DOD pie**
- **DOD comparatively uncontrollable in contrast to other expenditures**
- **Other budget-driving factors— assumptions—easiest to control**

But...

- **Successes, failures, and futures**

Figure 8

Budgeting: Where Intel Fits

people would say that. They're just huge numbers when we deal with moving carriers or B-1s or B-2s or submarines around in terms of the budget. Dealing with smaller intelligence items is much tougher.

Student: Could you ever get to the point where you could say that a dollar buys a unit of defense and a dollar buys a unit of intelligence, and try to define what a unit of defense is relative to a unit of intelligence?

Donahue: In 27 years of working the budget, intelligence was often advertised as a force multiplier. I have never seen anybody successfully work that calculation. It's more a rationale, a logic, something you throw up as an argument. But it's not something that can ever be really carefully done, and it's not a constant part of the defense budget process.

Student: That's what I was going to say. Really what drives it are the prior years' commitments and the salaries and the fixed costs that have a life of their own once started.

Donahue: Correct. You're never going to get somebody in the Army to say, "My tank can be 10 tons less, or I can work with 20 percent fewer tanks, because the intelligence value is there." I've never seen an Army, Air Force, or Navy person say that. The only time I saw the intelligence trade-off work was the other way. It was when Secretary Brown was trying to develop what was called the "Peapod" deployment of ICBMs, where they would rotate around. Remember? We were going to have moving ICBMs in the desert and they were going to be under cover. There was a little intelligence program looking at extra-sensory perception, not very much money —$1 million a year or something like that—that said, "Hey, we can tell you if that program's successful, because we'll know under which pod the pea is!" General Allen, who at that time was Chief of Staff of the Air Force, sort of said, "I'm not going to support a program that can tell me where the pea is under the pod, because if they're right, then I'm buying a big expensive deployment program for relocating the missiles that's useless." So he stopped the intelligence program. (Editor's note: The psychic, Uri Geller, among others, was brought in to "sense" where the missiles would be. The JASONs, a consulting group of prominent scientists, reviewed the program, concluded it had no merit, and wrote a report that led to the program's cancellation.)

I gave you this background on the budget, and maybe spent too much time on it, because here's little old Donahue sitting down there running intel things, and I'm a very small piece of a bigger DOD pie, while DOD is relatively uncontrollable in contrast to other expenditures, both politically and fiscally. There are big driving assumptions that the people are going to focus on, and when you're trying to get the attention of a President or a director of OMB and say, "Hey, what about my $100 million here for

this?" it's hard. They don't want to spend their time doing that. Getting blood on the floor, confronting a political appointee who says, "Look, it really means a lot. It's very important to us, and we should do it," is very difficult to do. That's not by way of an excuse. I'm really trying to convey the political reality of working in the Budget Office.

Oettinger: So it's a trade-off between the DCI and the Secretary of Defense, or would the OMB director act as an arbiter?

Donahue: It's worked both ways. Sometimes the Secretary of Defense has worked it directly with the Director of Central Intelligence; sometime he's worked it with OMB sitting at the table, and having a strong influence on it. I would say the latter in most Democratic administrations, and the former in most Republican administrations, because the deference to the Secretary of Defense is stronger among the Republicans.

I don't have a lot of charts on this because you immediately get into classification issues. But I wanted to run through a few of what I call successes and failures that I witnessed or was part of in terms of my career in OMB (figure 9). The reason I'm citing these is not just because these are even the most pertinent examples, but usually because they demonstrate a point about how things work.

The Manned Orbiting Lab had a reconnaissance rationale. There was going to be an Air Force man up there who was going to take a particular focal length telescope, zero in on those license plates, and really be able to read them well. That became the rationale for the program. It probably started more as a rationale to have an Air Force man in space to compete with NASA. But when McNamara got through looking at it, it was clear that the only rationale that really stood up was that we could get better resolution with a man there tuning the focal length than we could from automated systems. That was probably right. They probably could, but the difference was not significant.

I started at OMB in 1967, and Nixon finally killed this program in 1969. I was

Several successes:

- **Manned orbiting lab**
- **Oxcart vs. SR-71**
- **Soviet G-class submarine**
- **Special collection service**
- **Continuity of government**
- **New launch vehicle**

Some failures:

- **Tactical Intel**
  - Imagery dissemination
  - Drones/UAVs
- **Clandestine collection**
- **Contingency capabilities**
- **Resource allocation measures à la GPRA**

Figure 9
Budgeting: Successes and Failures

not directly involved in the action on it, but it's now a public story, so you can sort of talk about it. We took it up to the President a number of times and said, "Let's kill it!" Lyndon Baines Johnson was President of the United States and he said, " That program was started when I ran the National Space Council. We don't kill programs that began in my administration. I don't startbad programs. I don't start stupid programs. And it will not die while I'm around."

Oettinger: Let me add a personal footnote, because during that period I worked with the Office of Manned Space Flight and it occurred to me that it was sort of nutty to have a launch in Florida of something built in California, controlled out of Houston, with a lab in Alabama, et cetera. I once asked my boss why we were doing it that way, and he pulled out a list of the Senators on the Space Council that Lyndon Johnson ran, and damned if the correlation wasn't 100 percent! Politically speaking, it was a work of genius.

Donahue: NASA still has that system.

Oettinger: NASA still has that. In terms of artistic exercise in the political arts, it's beautiful.

Donahue: Even Cleveland, Ohio, with the Ames Center.

Oettinger: Yes, it was everywhere.

Donahue: So, we waited until the election came along, and Richard Nixon was in office. Nobody in this room would even know Bob Mayo, who was the first director of OMB under Nixon. He was a little guy who came out of Treasury. We thought he was great! He took this right in to Nixon, and Nixon said, "Kill the thing." It was a huge program in terms of the military-industrial complex. In terms of my career, it was a very significant event, because from that day forward contractors would enter OMB all the time. They did not want to miss out on another big program being killed without having touched base with OMB. I would have Lockheed and Harris and Martin Marietta and other people in on me all the time saying, "What do you think about this? What do you think about that?" I would talk to them. I tried to be fairly straight and honest with them. But it was because the Manned Orbiting Lab was killed.

Oxcart was the predecessor to the SR-71, for the couple of you in the military here. "SR" really should have been "RS," but Johnson made a mistake, and instead of being "reconnaissance/strategic," it came out "strategic/reconnaissance." Oxcart was run by CIA. There was a big, long fight through about three years between the Air Force and CIA as to which was the better aircraft. If you look at it in retrospect, Oxcart was probably a better aircraft. The Air Force came along and said, "We have to have two men," and so they made it a little longer. That created some instability problems. They changed the reconnaissance pod to perform more functions, but it wasn't a significant enough difference in the decision on whether to keep both assets. The Air Force had the longer-run mission, which was post SIOP (strategic integrated

operations plan) reconnaissance, strategic attack reconnaissance. So the SR-71 won out, and the Oxcart aircraft ended up in mothballs. This was something that both my predecessor in OMB and I were involved in.

I was personally involved in the Soviet G-class submarine from almost day one. It was in 1968. A Soviet submarine (taking liberties with Tom Clancy) rose to the surface. I don't know if it was to charge its battery or to do a communications check. It had an explosion and a fire aboard. It started to sink, and as it went down, it imploded and ended up at the bottom of the Pacific.

We found out about it fairly quickly, because the Russians started sending Mayday communications searching for their submarine, asking them to respond, and so we knew something was amiss. We went back to check some of the records of our acoustic men in the underwater world, and we found out that the thing could be triangulated fairly closely at a particular point. So we organized a retrieval of a Soviet submarine. It became a big project and it was played up in the *New York Times*.

Oettinger: Was that *Glomar Explorer*?

Donahue: That was the *Glomar Explorer*.

Student: What year did that occur?

Donahue: The submarine went down in 1968. The recovery was in 1974.

Student: Was that SOSUS based, or have we crossed the classification line there?

Donahue: You're getting into low-frequency SOSUS (secure ocean surveillance undersea), and it's a little bit different. But we found the submarine, and we decided to retrieve it. I strongly supported Jim Schlesinger, who was associate director in OMB as the decision was being made. One of the things that made that happen was this guy named John Parangosky, who had been running the Oxcart program, and was for a long time a very stellar performer in the CIA. He had run this program

very successfully, developing this mach-3 aircraft that could go to 100,000 feet. He was available for a job. They decided, "Let's go after the submarine."

Secondly, there were a couple of things that were of interest to Schlesinger. One was the nuclear warheads. However, a guy by the name of John Foster, who was a long time DOD R&D man, said, "If you put the nuclear warheads in front of me" (they were mid-1950s warheads, because this was an older submarine, not the latest stuff) "it would probably be worth about $10 million to me, but not much more." The other thing that people thought was significant was the cryptography gear. NSA came in pretty strongly and said, "Hey, we haven't seen a piece of Soviet crypto gear in 30 years. We'd like to see something from that submarine." So we ended up spending $500 million going after the submarine. At that time we were thinking it would cost more like $100 or $150 million.

I personally thought it was a bad decision. But I put it down in the success column because it's one where I think we provided the information to our bosses—the Secretary of Defense, the Director of Central Intelligence, and the President's Science Advisor, who was involved—and went after the submarine. We didn't end up getting it. We just got pieces of junk out of it, but I think it is an example of OMB working successfully.

Special collection service. We sometimes run clandestine intercept facilities at some of our installations around the world. When I started in OMB, there were activities that were run by CIA, by the Air Force, and by the Army. About the mid-1970s, we managed to put them into one pie, trying to get them to talk to each other. It was important in this instance because it shows where OMB can tend to influence interagency activities, rather than focusing on single agencies. We were successful in this because we could say that agencies should begin to operate together.

Oettinger: Can I ask you for more specific detail on that? You say that to whom? Is that at the level of OMB guys talking to fiscal people in the agencies, and saying,

"We'll catch you at the pass?"

Donahue: In this particular case it ended up that way: talking to both the agencies' fiscal people and their program people. But we were also talking to congressional staff, who ended up implementing parts of it on their own and writing it into the congressional recommendation.

Continuity of government programs. Tony's probably familiar with some of those. Bill Odom,[1] who was an Army general, looked at what we had developed during the 1950s: a special facility buried in some rock at Mount Weather, outside of Washington, D.C., which was supposed to be our nuclear command and control site and domestic recovery site if there should ever be a nuclear attack. He said, "Everybody knows where Mount Weather is, and if the Soviets want to put a 30-megaton warhead there, or even a 1-megaton one, they can, and there's no more Mount Weather." So there was a big effort to develop what became mobile command and control capabilities that could move around and couldn't be targeted. There were a lot of complications with that.

We were very instrumental in following the Presidential direction. An interesting story on that is that I think Reagan made the decision. Reagan said, "Well, how much is this going to cost if we develop these mobile capabilities in the intelligence community, in Defense, in State, and in FEMA?" So there were four legs of it, as well as the Presidential node itself. He was told, "About the cost of an aircraft carrier," and at that particular point a nuclear aircraft carrier was somewhere about $2.4 billion. He said, "I think that's about right." So the decision was made to go ahead with the program.

We supported that and had a lot of influence on how it was structured and created. No sooner was it getting established than the Soviet Union imploded, and this program became nonessential, so we were very rapidly dismantling it as well. There's not much left of it today.

New launch vehicle. I put that down because, again, the political drive for a launch vehicle came largely from the Star Wars program. When General Abramson, who was running Star Wars, looked at what he had to put up in space, it was going to cost $3,000 per pound to get it there, which was sort of the going rate of the Titan-class booster. You were going to bankrupt the nation if you tried to put Star Wars into effect, and yet that's what the President asked for.

So he said, "We have to have a new launch vehicle, and I can give you an order of magnitude reduction in the cost: $300 per pound for space." There was no really new technology that you could advertise for it because boosters are boosters and rocket thrust is rocket thrust, and there was no more powerful rocket thrust that he could develop. But, nonetheless, he had to sell it. It was his political job to sell it.

So for a while we fooled around with a new launch vehicle. We let him get away with it for a couple of years, but as soon as Star Wars faded, it started to hit the skids. The new launch vehicle didn't appear anymore. They started something called ELV (expendable launch vehicle) that sort of replaced it, but it's a lot different from what this was conceived to be.

Student: Please take my question as an innocent one. Budget is really valuable information for analyzing the future capability of the military, and on some projects, the existence of the project itself must be classified. How do you manage the budget allocation? Do you have any mechanism?

Donahue: We just bury it all in the Defense budget. It's not identifiable. It's been advertised in the *Washington Post* and other newspapers as about $30 billion a year, so I'm using that. The actual numbers are classified. I don't even know what the actual number is for 1998. OMB saw it, the President saw it, the congressional committees saw it, but it's not a public budget and you can't see it.

Student: In that regard, is OMB compartmentalized so that different aspects

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[1] William Odom, later director of the National Security Agency.

don't know what the others are doing?

Donahue: I essentially worked in a SCIF without windows for 27 years. A SCIF, in case you don't know, is a secure compartmented intelligence facility. It's another Washington acronym. So the intelligence work is always compartmented.

Student: But would the folks who work, for instance, the agriculture budget know what you were doing?

Donahue: Oh yes, they'd know what I was doing, but it was behind locked doors so that they couldn't see it.

Student: When you talk about burying something in the budget, could you put a little more detail in it? Is there just a category that says "black," or is it an across-the-board increase in all the different accounts, or what is it?

Donahue: No. It's buried in a series of separate accounts that normal, public perusal of the budget would not lead you to find. I think somebody who has had some exposure to it could get a pretty good idea of the major ones pretty quickly, but it's not a deep burying. It's in a couple of notable accounts. We're not the only ones guilty of it or involved in it. When stealth came along as a technology, which was really in the Carter Administration, large dollars got put into stealth in the Defense black budget, which includes both intelligence and stealth. It became very, very large, and this caused some concern on the Hill, because it got put into special studies, or special analyses, or special this or that. They had crazy titles and names that lead you to be suspicious if you've been around Washington for a while, but do not necessarily answer anything.

Student: Help me understand the whole perception of this issue of how the budget works. Does Greenspan get involved?

Donahue: Greenspan chairs the Federal Reserve Board. What you've got to make sure of is that when the Council of Eco-

nomic Advisors comes up with its working projections, Greenspan, or the Federal Reserve Board, isn't going to confront it politically to embarrass the administration, because the administration will start trying to embarrass him. We try to keep the monetary policy reasonably in key with the economic assumptions and make sure that they don't clash with each other. But it's not a prearranged deal where Greenspan necessarily says, "The Federal Reserve Board and I buy under these assumptions."

This has been fairly detailed, but I wanted to give you some real-life examples. Is it too detailed?

Student: Good.

Student: Perfect.

Oettinger: I think that you have a fascinated audience.

Donahue: Some failures. I think we talked a little bit over lunch about KH-4, otherwise known as Keyhole, which has become public. KH was the codeword for satellite imagery for a long time and still is, as far as I know. In 1976 the KH system was shifted into one where the imagery was dumped down in real time or near-real time so somebody could look at it and say, "That's what happened an hour ago or two hours ago." It became apparent to those of us working intelligence from a budget standpoint that a question was immediately going to arise of how and to whom it was going to be disseminated. People weren't too concerned about the dissemination of film packages when they were three months old. In fact, duplicate copies were usually sent to the unified command structure, and the military were sending them to Strategic Air Command and other people who could look at film imagery. But it was old. It was dated.

Not that it didn't create problems. President Carter came along in 1977 and wanted to cut back the number of forces in Korea. Some people looked at that old film-based imagery and said, "The North Korean military is about twice as big as you thought it was, and you'd better not cut

back forces." Carter had to back off then. So even film-based imagery was a problem. But a new, real-time imagery was even worse, because what if somebody comes along and says, "I see something there that you didn't notice." It becomes a big problem. So you knew dissemination was going to be a problem. To whom are you going to give it? Is everybody here going to look at it at the same time?

The intelligence community tended to hold it close; keep it in Washington, and not let it out to everybody. That is the decision we ended up with, but the issue was really never studied. We tried in 1975 to add $1 million to the Central Intelligence Agency's budget to say, "Go look at this problem, and figure out what the policy really should be—to whom it should be disseminated, how fast, under what conditions, and do we have a dissemination mechanism in place?" As it turned out, it was a critical study that was never done, because during the Gulf War we learned that imagery dissemination was a real problem in Desert Storm. We missed that one.

I think it's a failure. We tried, and we gave up. People wouldn't do it. So they keep it in the National Photo Interpretation Center or some central place in Washington, and send written reports out if people really ask for them. Eventually we developed some mechanism for giving snippets of photography to the commands. But it was really when the Gulf War came along that people said, "No, no, no. Those pilots want a picture of the target they're going to hit tomorrow. They want that picture today. The guy who is going to charge across that border wants yesterday's picture of what he's going to get across the border. He doesn't want one from 10 years ago or not real time and have to deal with old film imagery."

Drones and unmanned aerial vehicles (UAVs). I dealt with the problem almost from day one when I walked into the Bureau of the Budget. They had some active drone programs that were very effective over North Vietnam, as a matter of fact. There were a couple of clear needs you could see for UAVs. One was penetration of the territory of an enemy that had high

defense capabilities. The President, after the downing of the U-2, had said, "We're not going fly over the Soviet Union with a man in any way, shape, or form because of the embarrassment caused by the downing of the U-2" (the Gary Powers case). That was firm through all my years in Washington. But a drone could do it. Secondly, a drone could stand off from an area, circle around, and stay up for a longer time—24 hours. If you put a man in a U-2, he can stay up there for about eight hours before he gets tired of being up in an airplane and has to come down.

So there were a couple of clear needs. But even so, it was very difficult competing with the Army, Navy, and Air Force, which were running manned aircraft, and getting them to adapt to an unmanned system. We really never succeeded.

It's beginning to happen right now. As a matter of fact, last week I was out at Teledyne Ryan in San Diego. They rolled out in public something called Global Hawk, which is an unmanned earth vehicle that can fly at 65,000 feet and stay up for 24 hours at a reasonable cost. There are some lower-level ones; Outrider, which the Pentagon is now involved in. These things today cost maybe $100,000 to $1 million, at least some of the lower-level ones, versus the cost of a manned system, where we've got a man-machine interface of $30 million usually, plus the man's training and the timing. The economics sort of drive you to recognize that UAVs are a very economical approach, but we never were successful in pushing it.

Clandestine collection is a tough one, and we never really dealt with it. We couldn't. It's small dollars. Clandestine means human source collection.

Student: Actually, I want to go back to the drones and OMB. Can you use a budget mechanism to drive the document home at all and put pressure on some of the services? Can you allocate so much money for this area that must be spent?

Donahue: We can go up to the director of OMB, and he can act if he wants to, within the time constraints of worrying about his economic assumptions and the tyranny of

large numbers, or we can go to the Secretary of Defense because we are in a joint review. We can say, "You should devote more to this and give it encouragement, not challenge it." But in this particular case with the drones, the minute the services came under a budget ax of any kind and were asked, "What programs do you want to give up?" they almost always said, "I don't need UAVs. They're not going to take away any of my pilots," and the systems went. I'm not saying that critically. They were motivated for a whole series of reasons. But it's something we could never really get to move forward in the way that it probably should have moved. Is that good enough?

On clandestine collection, for a while we tried something in the Navy, called Task Force 157, to develop a clandestine collection capability.

Oettinger: Is that the one that Inman stopped?

Donahue: That's the one that Bobby Inman suspended when he came in as DNI, Director of Naval Intelligence. There have been a number of efforts over the years to try to get DOD involved in clandestine human source collection. They never worked. People with shined shoes stand out, and you can't take it out of them. It's part of the mentality that they grew up with, and it's very hard to get them to act the same way that nonmilitary people do. None of the efforts, whether they were at the Secretary of Defense level, or at the Defense Intelligence Agency level, ever really worked.

The alternative was to try to do something a little bit different with the Central Intelligence Agency, the primary clandestine source collector. To get them to think of something other than living in an embassy environment under a State Department cover, which is where the bulk of them reside, was almost impossible. We thought of more flexible operations, in terms of how they organize. It was very difficult in any case to get them to think that way. To my mind, they became very rigid about how they were going to sit in an embassy office. They might do a lot of things

at night and other times that were different than Foreign Service officers, but that was their *modus operandi*. They had diplomatic cover. They worked in that environment. I think that has severe limits in the modern era. I don't think we can be very successful, and we were never able to get anyone to change it.

Contingency capabilities. People don't like to buy things betting that they will have some use in the future. That goes for clandestine human sources. If we suddenly need to send out 10 or 15 additional human source agents in the Ukraine because there's something happening there that might affect our security, and we should be more on top of it, is there a cadre of people ready to go to Ukraine? Absolutely not. Nobody wants to sit on that kind of capability, to develop it in a contingency mode.

I personally was witness to that sort of involvement with CIA in terms of Bosnia. It became clear to us in 1990 that this was rapidly evolving into a very bad situation. To have 10 or 15 more clandestine people on the ground to find out what was happening would have been worthwhile. They said, "No, we're happy at the embassy, and we're doing what we think we can do, and that's all we can do." It's very hard to change a bureaucracy so it will move into those kinds of things.

The same was true of signals intelligence intercept activities. We tried to get somebody to have a package ready to go in case Somalia gets hot, or Haiti gets hot, or Panama gets hot; wherever you think the crisis is going to be. They don't want to prepare for it.

Contingency capabilities were a tough one to do. It's reflected in terms of contingency capability for a military warfighting scenario. It needed Presidential push. The agencies never once went for it.

Student: Are you talking about strictly civilian, like CIA, contingency planning? Or is DOD also involved in it?

Donahue: DOD as well. The Special Forces have begun to develop some capabilities for it. That's been a plus in the last few years. But it was hard to get people to

plan ahead and keep contingency capabilities to put in place on an intelligence basis, not on a warfighting basis.

Student: I'm talking about HUMINT and SIGINT development.

Donahue: There were some things developed in the Special Forces to try to get some HUMINT and SIGINT in, but they've been very limited, and it's always tough to do. We're beginning to make a little progress on this.

Oettinger: About this intelligence budgeting role, there's a message I get from what you're saying. I don't know if it's the message you wanted to get across. Here is the Office of Management and Budget (and in particular one part of it, which is dealing with a financially modest part of the total) as a place where an effort is made to coordinate and arrange things at a high level. One would say that that's the job of the Director of Central Intelligence, only of course historically he hasn't done it because he's also the Director of the CIA and one thing or another, and defers to SECDEF. Having said all of that, based on your X years of experience, if I'm right about the message, you must have some personal views on how to address this problem, which is a perennial. Several commissions have addressed it. What are your personal views on this?

Donahue: I think you need a strong involvement from the National Security Advisor and the President. I think this is so fundamental to his well-being, in terms of his international posture and his military posture, that he should be more personally engaged in it. On the other hand, Presidents have tended to say, "Intelligence is dirty, messy, and can get me in trouble, and if you would never walk in the door I'd be just as happy." It's not something that they want to get too close to, and yet I think any President would say, "If this situation is going to blow up, I want to have that contingency capability ready to go, to check on whether it's going to blow up."

From a Presidential perspective, these are things I might want to have readily available. A Director of Central Intelligence, or an individual agency—the National Security Agency, CIA, DIA—might not want to have it, or to spend their hard-earned bucks that way.

Oettinger: Has the PFIAB (President's Foreign Intelligence Advisory Board) had a relationship with OMB over the years, or is it again only sort of marking time?

Donahue: There have been some good interactions with PFIAB, and some not so good. The President's Foreign Intelligence Advisory Board was created in the 1950s to act as a sort of independent investigator, and has had a somewhat checkered career. It's hard to have temporary people, usually luminaries—some really bright people: Ed Land from Polaroid; Bill Baker from AT&T Labs—come in once every three months, sit down, and say, "I'm going to monitor intelligence." It can't be done. The intelligence community is going to bowl them over with a briefing that says, "Everything is great in my area. I'm doing this. If you tell me to do that, I'll do that." It's too tough for a technical person to do.

Student: I assume that you've described in a sense the mission of the OMB intelligence office in the illustrations you've given us up to now. Is the intelligence arm of OMB part of the Central Intelligence Directorate of the United States, or is it completely separate from that administrative structure?

Donahue: It's part of the Office of Management and Budget. It's separate from the intelligence panoply. We're not CIA, or an intelligence body at all. I come out of CIA, but I cut my affiliation with it when I left, and I was not a CIA-employed agent.

Student: Do agencies or offices ever pull in OMB's branch managers, or someone in the branch, proactively and say, "We're thinking about a project that looks like this. I think we're going to spend 11 figures. What do you think about that?"

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Donahue: Absolutely. It's done all the time. That's not unusual. A lot of times we as individuals may or may not agree, so we'll take it to our boss to get his viewpoint on it and try to convey that back. The boss might talk to the particular agency about it.

I want to mention one other issue that I think we failed on because it sort of acts as an introduction to management: resource allocation measures à la Government Performance Results Act, which was passed two years ago. Nobody in Congress who passed it knows what it's about. They tried to measure government performance. Essentially, the intelligence community has been very, very devoid of performance measures in its various operations. I tried through a number of steps, including the 1971 intel reorganization, but also later on in an Indicators project. Stan Turner[2] tried with something called the National Intelligence Tasking Center to get some measure of performance of the community. Quite frankly, I don't think it's worked very well at all, and nothing changed.

It's been a tough one to do. The first guy I saw do it was named Max Oldham, who ran something called the Intelligence Program Evaluation Staff at CIA for the Director of Central Intelligence, looking across the community. He developed a chart with performance on one axis and cost on the other (figure 10), and the curve sort of rose. He showed it to me and said, "We were here near the top of the chart in 1970, and if you cut back to a lower level of support, you're going to lose a little bit of performance." He got fired in a hurry. He didn't last. If you ask my view of the intelligence curve, it's very much of that order. It has been throughout my career. We're very high on this scale.

Student: Still, in 1997?

Donahue: Absolutely. There's no question in my mind. Even in the tight years of the Carter Administration, when the budget was at its tightest, I think we were in pretty good shape.

[2] Admiral Stansfield Turner was DCI from 1977 to 1981.

Student: Would you make the same observation about the defense budget as a whole? Is it at the same point on the curve?
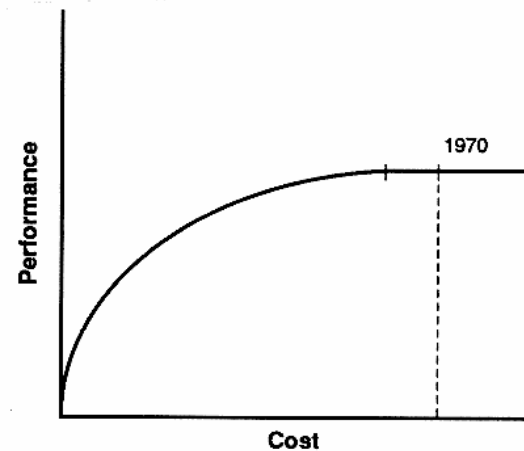

Figure 10
Intelligence Cost-Benefit Assessment—1970

Donahue: Clearly that has not always been the case during my 27 years at the budget office. I think in the 1970s there were some tough cuts taken there and not taken very well. By and large I think it's in pretty healthy shape now. We're *so* strong, and that's got to be evaluated in some respects in relationship to the threat.

I brought this slide along because one way to judge how well you're doing is against some criteria like the Soviets when we made them even (figure 11). If you look at the budgets today, there's some confusion as to how much exactly the Russian one is, and how much exactly the Chinese one is, particularly because they're heavily weighted by manpower as opposed to capital investment. But we're at $250 billion! The next guy is at $60 billion, and after that the U.K., Japan, Korea, Germany and France are in the $40 billion range. These are all our allies. None of these guys are enemies. You've got to get down here maybe to Iran or North Korea before you get to an enemy. We've got to be pretty far out there if in fact we're spending $250 billion or $260 billion and all these other people are down here in the $40 billions, or these guys are down to $10 billion.
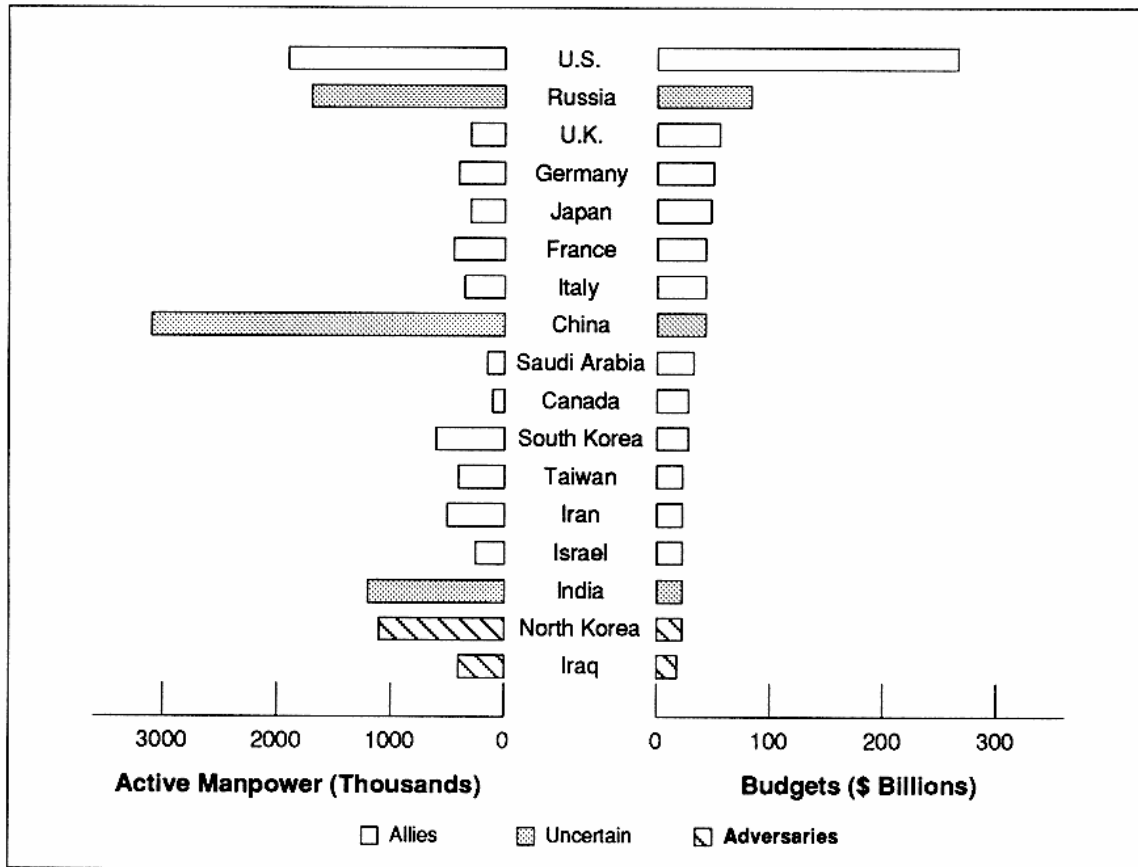
Figure 11
World Defense Forces and Budgets

Student: A very telling illustration.

Donahue: Is there any wonder why Iraq, which is down here at $7 billion or $8 billion or whatever it was, didn't compete very well?

Student: No. It raises a question in my mind, though. We in the military often hear that one of the largest expenses in the U.S. military is the soldier, the cost of the person, yet when you look at China, obviously they've got a lot more people, but a much smaller budget. Where is the disparity there?

Donahue: The disparity is in what you pay your soldiers. Every time we did the Soviet military per person, we priced Soviet soldiers at our cost to make the budget look larger. That was one of the big things that made the Soviets pop out to here. There's a point where you've got to make some adjustment for the fact that they're not making $50,000 a year like the average U.S. military officer. We don't know exactly what the right adjustment is, but clearly China or Russia, with this number of military under arms, isn't paying them at our rates.

Oettinger: At the risk of belaboring the obviously obvious, I want to underscore something that is sort of hard to underscore except in the presence of someone from the Office of Management and Budget, who has made it abundantly clear how much most analytical and numerical policy things depend on assumptions. In the Kennedy School of Government, in good faith or

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whatever, that tends to be obfuscated, and a degree of faith in analytical approaches is assumed. I hope I'm not putting words into your mouth, but you've illustrated the enormous importance of assumptions in how the numbers work out.

Donahue: And most of those difficult things can't be proved in the purely analytical framework. How do you measure the Soviet Union versus the United States? This is one kind of a fixed assumption.

Student: I was actually going to ask you about another measure. Presumably you've dealt with a lot of the $700 hammers and things like that.

Donahue: It's very hard. We can't deal with $700 hammers. I had a staff of four people.

Student: No, I'm not saying that I would ask you to fix it. I know those stories have a very special character all their own. But is budget here a decent measure of the relative military capability that the United States has purchased for itself vis-à-vis the other countries, or are other countries better at spending their money? Do they get X number of units, which is actually close to the United States, or are we doing a pretty good job? I know that you guys work on efficiency and spending it the right way, too. I want to know what your views are on that.

Donahue: The amount of analysis that has gone into that question is probably very thin. You can say the U.S. procurement system is inefficient. You could say the fact that we pay people what we do to have an all-volunteer force because we didn't want the draft is outrageous. You can make that case, and that then becomes a measurement of inefficiency. But it's hard to say that these numbers are uniformly that bad. Maybe one number should be lower, and maybe another number should be higher. But you can't say, across the board, that there is *the* correct number. I often thought that a fine international treaty would be to

regulate the amount of money that people should spend on their budget for defense.

Student: You're not counting the salary cap.

Donahue: Exactly. You could have two tanks down here if you were Taiwan, if it were only half as efficient as the American tank, right? But nobody's gone through those calculations. It probably is unrealistic or impossible in real-world terms to think that politicians are going to sit around the table and decide, "Your tank is half as good as mine," or "My aircraft is three times better than yours," or even get the military guys to sit down and agree on that.

Student: Isn't that what combat is for?

Student: With respect to that whole perception issue, which I've always found interesting, let's just say your budget here is X. When you spend X, who knows where that money's really spent? Does it go through the normal channels like the money I spend?

Donahue: Yes, it's pretty much spent the way you budgeted for. There's always some change, but there's a check and balance.

Student: Are there worldwide checks and balances? Say you spend something in Europe; does it go through the World Bank, or is there another entity out there?

Donahue: No. U.S. budgets spend U.S. dollars. There has been an attempt by the U.N. to do trade in international units through a reporting system. Even that I don't believe has worked very well, although I'm not an expert on it. People tend not to be very straightforward with those numbers. So there is no international system.

Student: Does the Federal Reserve or that magnifying glass ever see the spending process?

Oettinger: You've got the Federal Reserve confused with something else. They're not involved with this.

Student: That's my question.

Oettinger: The Federal Reserve Bank worries about the banking system and balancing fiscal and monetary policy.

Student: So they're two separate entities?

Donahue: Yes.

Oettinger: They're from two different worlds.

Donahue: OMB is the one trying to measure the expenditures and outlays along the way, in conjunction with the Treasury, which actually has the accounts.

Student: Is there one agency, though, that does get involved in all of this? The question I've been wanting to ask is about the relationship between OMB and GAO (General Accounting Office). Where does GAO come in? Aren't they kind of like a watchdog?

Donahue: When GAO was created, GAO was somewhat intended to be a counterpart of OMB. It never worked out that way. GAO became an after-the-fact auditing agency. It tended to look at things after they occurred and say, "Why didn't you build the AWACS for $50 million less?" It didn't look into the future. OMB's job, and my job, was almost always looking into the future. I never really worried about what happened in the past, unless somebody came along and said there was a violation of law and somebody spent the money wrong. So I never worried about it once the dollars were appropriated by Congress and I apportioned it to the agencies to spend. That was the last time I saw it. It was recorded as an outlay somewhere on the books of the Treasury. I would go back in terms of judging the future to find out how it had been actually spent. But I wouldn't go back for purposes of determining in an audit sense that it had been spent correctly.

So my view was always to the future, GAO's always to the past. I think that kind of answers your question.

Student: Is there somebody looking at it? The answer is, "Yes." How well they do, I don't know, but GAO is supposed to do it.

Donahue: When people come up with the $700 hammers or the toilet seats or whatever, OMB almost always says, "How would I know?" and throws it at somebody else. GAO comes up with an explanation.

Oettinger: Or it goes to the inspector general of the particular federal agency. If somebody has got their hand in the till or there's gross corruption of the contracting process, presumably the inspector general of the Defense Department, or XYZ agency, would be onto it. So it isn't exactly like checks and balances as a rule, but what Arnold is talking about is the President's arm for dealing with cosmic issues. What to an agency is big money is to him small change. He's dealing with $1 trillion of the United States of America, and so the fine control is elsewhere.

Donahue: By and large, if I didn't have a $5 million issue when I started in 1967, or a $50 million issue when I left in 1994, I couldn't raise it to the director. If it was a waste of $25 million, the director of OMB doesn't have time to worry about it. It's increasingly the agency's responsibility to handle that. As we moved into the Budget Deficit Control Act era, which was in 1975, the focus was more on the future and more on the overall magnitude, not on the individual limits. I can't get the director of OMB to focus on it. If a big problem comes up, and suddenly $1 million has been spent, yes, we'd be aware of it, but it's not something that we focus on.

Student: Because you are focusing on the executive branch and all that, could you just give us two seconds on how you interfaced with the CBO, the Congressional Budget Office?

Donahue: CBO came along as a result of the budget control act of the mid-1970s. CBO was created as somewhat of a counterpart for Congress of what OMB was doing: to look more at the current year's budget than at future budgets. CBO was designed to support the budget resolutions that are the major result of the budget committees. Quite frankly, they got into the defense business and they made recommendations on defense, but they really never got into intelligence. They never had the drive, and since Congress was their boss, it was up to Congress to say, "I really want you to get involved in intelligence." What Congress did was say, "I have my own staff on the intelligence committees to handle that, thank you very much. CBO, stay away!"

Oettinger: You're saying that HPSCI and the Senate Select Committee are presumably the ones who interact on intelligence.

Donahue: Correct. The two intelligence committees, the House Permanent Select Committee on Intelligence and the Senate Select Committee on Intelligence, really staffed that function.

Student: I want to go back for just a second to the Department of Defense budget. I propose this. It seems to me that we're the only country in the world right now that buys not soldiers, but a rate of return, with our defense dollars, and the return is measured in targets acquired and destroyed per U.S. casualty. Everybody else is looking at the force they field in terms of the dollars it costs to put a soldier in the field and what they need based on historical data on the battlefield. In America, there's been a political agenda, a politically set threshold, that we will not accept a casualty above this level. That's where the expense comes in, the dollars per casualty.

Donahue: I think that's correct. That's a valid point. We put a very high price on casualties, and minimization is absolutely essential. You saw what happened in Somalia with a couple of incidents, and Haiti would have been a big mess if suddenly

casualties had burgeoned. Bosnia would have been the same way. I don't think the American people, as much as they're willing to be fairly generous about international support with their military force (not with their economic aid ... a lot of countries do things a lot more economically than we do), would accept a large number of casualties. We'd be fairly generous in the application of force in a way that's beneficial to the world, but we don't want those casualties.

Aspin left because of Somalia. He hadn't given the forces heavier weapons to take with them. He took a lot of heat for that because of the casualties involved. Perry was very badly threatened by the Khobar apartment bombing. To expect the Secretary of Defense to be responsible for the physical security of an apartment building in the middle of Saudi Arabia, where there was no fighting going on, and to say he was going to rise or fall on that basis, is really extreme. But I think the one threat in his whole tenure was when the Khobar apartment building in Saudi Arabia got bombed.

I've got one other chart to throw in here. My boss in OMB has since retired, but he ran the defense budget, and he put these up as the issues for defense at a recent briefing that I attended with him (figure 12). We've already gone over that comparison on the first point with the foreign spending chart. Do we carry too much of the free world's defense burden? It's a legitimate question. Look at Bosnia. The

- **Do threats justify planned DOD budgets?**
- **Does the U.S. carry too much of the free world's defense burden?**
- **Should funds be moved from defense to international?**
- **What will DOD do if funding is below planned levels?**
- **What is the right mix of operations and investment funds?**

Figure 12
Issues

West Germans or the French or the British were reluctant to go in without a large commitment of U.S. forces. Should funds be moved from defense to international affairs? We spend roughly $20 billion on international affairs, and $250 to $260 billion on defense. Wouldn't it be better if we did something on the international affairs side? It's a question that I don't have an answer for. What happens if the DOD budget falls below the planned level that you saw in some of those charts? What happens if you get less because of deficit reduction or whatever? Finally, there's the mix between operations and investment funds. I put those up only because they are critical issues that are likely to arise.

If I were in OMB today I would compete with those issues with what I would say are my "adult" issues in intelligence (figure 13). Those DOD issues are big dollar items in terms of those fixes. The intelligence issues are relatively small dollar items. But I would say they are key issues from the intelligence viewpoint.

I call the first item megabuck satellites or fatsats. That's sort of a derogatory term, but we built our whole satellite posture on

the basis of billion-dollar satellites. Not very many satellites in the inventory cost less than a billion dollars apiece. They're very expensive, very fine-tuned instruments. Can we continue that approach, or should we go for what technology now provides in the way of small satellites? Among small satellites I include UAVs, unmanned aerial vehicles, because those are real alternatives in terms of having something up in the air, but not way up in space, for doing some of the same job. I don't think we've got the answer to that.

Part of this doesn't even have to be done by government. There's Space Imaging, near Denver, Colorado, whose president is the former director of the National Reconnaissance Office. Commercial imagery is becoming available. You're going to have one-meter imagery from commercial satellites coming down to you on a daily basis, starting toward the end of this year, when they get their satellite launched. This trade-off has to be worked. I don't know what the right answer is. My view of the right answer is that we need to put more emphasis on smallsats and UAVs, and less on the billion-dollar systems. I haven't

- **Fatsats vs. smallsats: Are there alternatives to megabuck satellites with Titan-class launchers?**

- **Encryption: Will the Internet create a world of ubiquitous encryption? What does this portend for the future of NSA and SIGINT?**

- **Open source: What is the IC's role in an increasingly open source world? Will open sources supplant or supplement the IC?**

Open Source — 1% / 9% / 90%
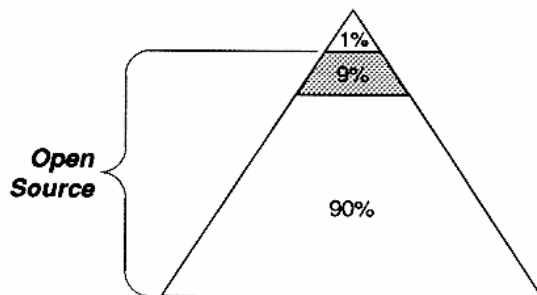
- **Interactive Intelligence: How to accommodate greater interaction in use, production, collection?**

Figure 13
Budgeting: Today's "Adult" Issues

done the analysis on it, but I think somebody ought to do it.

Encryption. What happens in the years 2000 and 2005 if encryption becomes ubiquitous, and it's easily available to everybody and of such high quality that the National Security Agency, which is our arm for intercept, can no longer collect signals and decrypt them? We certainly had parts of that. There have been areas of Chinese code, or Russian code, or German code, or French code that we certainly can't look at. But what if encryption becomes profusely available within the world, not only for military use, but also for use in economic, business, political, and diplomatic communications so that we know a lot less of what's happening in the world? I don't know that anybody's got a good answer to that, but it's a legitimate issue.

Student: Would you agree that the technology, or the technological development of encryption, suggests the likelihood of that coming to pass within the next several years or a decade or so?

Donahue: Some people with the current administration in the Executive Office Building would say that ubiquitous encryption is likely. My answer would be that it's not.

Student: Really?

Donahue: I don't see a reason why you and I would want to go through the grief of encrypting a large amount of our traffic, and that goes for a lot of businesses and cultural and economic activities. But for military and diplomatic traffic, and even some strategic economic applications, such as GM fighting Volkswagen or Toyota, encryption would be used.

Student: I have two comments to make. Don't you think that's just a continuation of the measures/countermeasures battle that goes on when someone does something and then you counter it, and he improves it so that you can't beat it, and then you can beat it again? The other thing is, I know from the U.S. military perspective that

people get lazy, and I found that we've had access to secure communications in all instances and often don't use it. So I think both of those things can be exploited.

Donahue: There's always going to be some of that, but that tends to be very exceptional. I would say it's an order of magnitude difference, because good quality encryption is now going to be available pretty widely to a large number of people. Anybody who wants to take advantage of a really good encryption system can do it.

Oettinger: One of the reasons why it's going to be more widely used than you seem to think is that the entertainment business is one of the heaviest current and prospective users because they want to protect their properties. It's a very strange world. It used to be a military-to-military measures and countermeasures game, but there are now substantial civilian sectors involved. How to net that out is a damn good question, but it has become an extraordinarily messy one that includes everybody.

Donahue: Widespread encryption changes the parameters of how signals intercept has developed in the U.S. intelligence community over the years, or it could when encryption comes about to a large extent in communications critical to national security.

Student: Also, apparently, the way some of these systems work is that as individual computing power rises, the key lengths can get longer much faster than they can be broken. So, as more and more powerful computing power gets into the hands of individuals, it seems like that's a cause for concern because you will be able to use longer keys faster and more easily.

Donahue: It's a cause for concern to the NSA. I don't know if it's a cause for concern to you and me. It might be beneficial to us. This has become a big policy battle.

Student: I think the answer will be that you try to send safe messages not through the Internet, where a certain amount of computing technology will find out what

the message means, but in different kinds of technology. For instance, there's the quantum physics side where you can tell if someone tried to get into your safe message and intercept it, because it will become unreadable.

Donahue: I'm not familiar with that particular approach, but it's possible that could work. I think that's a major question for you.

Open source information. What I really needed in OMB for years was an information theorist who could talk about intelligence in a different way. One representation I've seen is that 90 percent of the information triangle is unclassified and open, and 9 percent of it is sort of gray—what Citibank is doing with its money and how GM is making its leading car and that sort of stuff (figure 13). Only something like 1 percent up here is really classified. But it's in the 90 percent section where you can acquire a large chunk of this pretty easily with Internet capabilities that are expanding rapidly today. I could go in and get so much stuff out of the Pentagon these days that I'm sure it would be a shock to them. You can go in and find out about the global broadcast systems that Defense wants to build. There's an awful lot that you can pick up from open sources, and it's increasing now. When you were dealing with a necessarily security-conscious adversary like the Soviet Union, which denied an open press, denied access to information, that was a problem, and you needed clandestine sources. But how much do you need them in the future, and how does the intelligence community use the large open source area? I think I have some answers to that, but it's a question that the community has not grasped or wrestled with well.

The last one is what I call "interactive" intelligence. The intelligence process tends to be fairly cut and dried. The collector passes it to the processor, the processor gives it to a producer, and the producer creates a printed product and turns it over to the Assistant Secretary of State for East Asia or whatever. It tends to be very formalistic and paper driven.

The current era is giving rise to a much more interactive form of information, where you can give comments or feedback pretty quickly to a lot of sources via your computer, and say, "Well, what about this one? Explain this more to me." The intelligence community is not well adapted to that kind of interaction. The Internet is very nonhierarchical, whereas the community tends to be hierarchical. It tends to be very nonsecure; anybody can say anything to anybody. The community worries about security. It's a problem that the community is going to have trouble wrestling with, and it hasn't found a way yet to provide electronic distribution of materials to its customers in such a way that they can interact rapidly and quickly on "What does that mean? How should I interpret what you just said?" It's one that needs a lot of work.

That's the end of the budgeting section. Whew! I can go much more quickly ... or I can take a lot longer.

If you remember, I said there was a second part to the Office of Management and Budget, and that's the management part. We have a large management role with respect to the federal government. I'm not going to discuss that. In fact, I think it's one of the more awful parts of OMB. It's never worked very well. It's hard to manage anything across the federal government outside of the budget control that OMB possesses. You can say, "You shouldn't determine it this way," or "You shouldn't run travel this way," or "You should buy your computers in the following fashion," or "You should provide information to the public in the following way." We have all kinds of circulars in the Office of Management and Budget that do that, but they don't do it very well. It's hard to tell agencies what to do without the power of the budget behind it. I spent very little time on that. I sort of deliberately said, "I can't enforce that stuff on the agencies." There's no way really to get them to do those sorts of things.

What I did spend a lot of time on in OMB was intelligence community management, particularly the 1971 Schlesinger Study. I was one of the panelists, along with Bill Kaufman of MIT, who was at The Brookings Institution at that time (figure

14). There happened to be a lot of management stuff that went on in respect to intelligence over the last 30 years that I think it would be useful for you to understand.

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• Joint Study Group Report (1960): DIA
• Attorney General Katzenbach Report
  (1966)
• Schlesinger Study (1971): IC Staff
• Rockefeller Commission (1975) and
  Pike/Church Committees (1975–76)
• Tower Commission (1986)
• Aspin/Brown, CFR Task Force, IC 21,
  20th Century Fund (1996)
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Figure 14

Management

First there was something often called the "Kirkpatrick Report." It was the Joint Study Group Report of 1960 ...

Oettinger: Some of the thinking on that found its way into Kirkpatrick's book.[3]

Donahue: I think he was executive director of the CIA when I started there. A guy by the name of Bob Macy in OMB (Bureau of the Budget at that time), who I believe was later Civil Service Commissioner, Jimmy Lay out of the NSC staff, and General Erskine of DOD got together and wrote a report. They said, "The problem with intelligence is that there's nobody running it in DOD." The CIA charter that set up the Director of Central Intelligence says, "Mr. Director of Central Intelligence, you run Department of Defense intelligence. You're supposed to be responsible for requirements. You're supposed to coordinate things. You're supposed to pull them all together with respect to analysis." But how can a guy sitting in a building five miles away, with no chain of command, control this big thing called Defense, broken up into Army, Navy, Air Force, NSA, and

later the National Reconnaissance Office and a couple of others? How could he run it? In fact, he couldn't. So this group came along and said, "The answer is to create a strongman in the Department of Defense, and that strongman shall be called DIA."

It so happened that the report's recommendation coincided with the missile-gap controversy of the 1960 presidential campaign between then-Senator Kennedy and Vice President Nixon, which Nixon got clobbered on. McNamara said, "It's never going to happen again, so okay, it's a good idea to have a centralized Defense Intelligence Agency that sort of controls all of Defense intelligence." The first thing that happened was that DIA was created and was put under the JCS, and NSA said, "But not me!" The second thing that happened was that the Army, Navy, and Air Force said, "But not me!" So DIA really never got to run Defense intelligence.

Oettinger: They're still trying. The Deputy Secretary of Defense signed out a new charter just last month that put into directive the notion of a military intelligence board, chaired by the director of DIA, that will pull together the leaders of the intelligence organs of the various military agencies. So 37 years later, this issue is still burbling.

Donahue: Yes, and I see the Chairman of JCS wrote back and said, "But I assume that means not us."

A different kind of management problem came about in the mid-1960s. I think 1966 is the right date. There was a whole series of articles in the *New York Times* that said, "A lot of these foundations and other activities being run in the United States are really acting as CIA fronts, and they wind up compromising a lot of American citizens who don't realize that they're becoming tools of the CIA." Tony Oettinger over here at Harvard thinks he's working on Project X, being funded by Foundation Y. It turns out he's not doing that; he's being paid by the CIA.

Oettinger: Yes, there was my National Science Foundation grant. I later ran into

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[3] Lyman B. Kirkpatrick, Jr., *The Real CIA*. New York: Macmillan, 1968.

the guy who signed a lot of that money over to NSF from CIA.

Donahue: I didn't know about that one. It wasn't just guys at academic institutions, or labor union leaders, or businessmen who were being compromised. It was Joe Shmo: you and me. Remember those things you used to get in the mail that said, "Contribute to Radio Free Europe to help free Eastern Europe from Soviet clutches?" It turns out that RFE was run by CIA, and the things going out were asking for your contributions to something CIA wasn't willing to fund in its budget, or asking you to supplement its budget by getting funding for part of the contribution. Anyway, this report came along and said, "Look, you can't mess around compromising Americans by bringing them into a clandestine intelligence world without their knowledge. What is the basic guideline?"

It was a major shift, a major management change. After that, RFE got turned over to a board of International Public Broadcasting. Asia Foundation, which had been very active in Asia and done a lot of good stuff, was another such activity. They were very active in Japan in terms of English language. They also took some economists out of Japan and said, "Hey, do you want to learn about capitalism and the way we practice it here in the United States?" and gave them training grants. It just so happens that they might have found it useful to gather information also. But there were things that were compromising Americans by having them associate with activities where they weren't aware they were getting into clandestine intelligence support. The Katzenbach Report came along and changed that.

In the fall of 1970, I walked into a Director's Review where we would present our issues to the director of OMB. George Shultz was director of OMB at that point, but acting for him, because he was busy and had something else to do that day, was Cap Weinberger, then known as "Cap the Knife." We walked in to present our intelligence material to the Director, and he said, "That's very interesting. The President would like to cut the intelligence budget

from roughly $5 billion to $3 billion, and your book isn't addressing that. You need to go back and address that."

That led to something called the Schlesinger Study. In a sense, if you look in retrospect, what we attempted to do was stop a meat-ax approach to the intelligence budget. The study said, "We can take a meat-ax correction to the intelligence budget, but what we would probably do is sacrifice the future, because those are the things that you can easily cut rather than the people or the operations. Instead, what you should develop is a stronger Director of Central Intelligence, who can actually control this budget. Not only that, you need something called the Intelligence Community Staff" (now the Community Management Staff; it has been renamed). The findings also said, "Mr. Director of Central Intelligence, in addition to your coordination responsibility, in addition to your intelligence requirements responsibility, you should have some clout over resources. We could be wrong about this, but the bucks are there in Defense, and the director of the National Security Agency and those people administratively report to the Secretary of Defense. Now you've got a vote out there."

It was a significant change. In fact, it was so significant that Dick Helms said, "Let's not implement it," despite the fact that he had an explicit personal interest in what he could do, because he was scared that he was getting into too much political back and forth. But it was a fundamental change in the structure of the intelligence community. The model of having an outside party control (control is too strong a word; influence) other agencies' budgets— the way the Director of Central Intelligence influences a large chunk of the Defense budget, but also some of FBI and State— has been cited many, many times as an illustration of what should happen in a lot of other areas where it never worked. It worked in intelligence, and it worked because there was a set of agencies that had a common sense of mission and a long series of associations, because they were all sort of clandestine and spooky. They all talked the same language, and were part of the same security compartments, so it worked.

I had to testify before the Rockefeller Commission in 1975 after Operation Chaos, when the CIA was doing some clandestine intelligence work where it shouldn't have been. This resulted in the Pike and Church Committees, which did reports in the 1975–1976 timeframe. Otis Pike was a member of the special committee that the House created to look at intelligence; Frank Church was a Senator from Idaho. I spent long hours reviewing documents to be given to them, reviewing testimony to be provided them, and reviewing analysis to be given them.

We had another one in 1986: the Iran-Contra hearings, the Tower Commission, as the result of Ollie North and cakes with keys in them going to Iran. We had a whole series of them in 1996, really starting with a proposition by Senator Moynihan of New York, who said, "The Cold War's over. Let's do away with CIA, the prime example of a Cold War agency. We don't need it anymore," to which Senator Warner from Virginia responded, "The CIA is part of my constituency, thank you very much. I would like to have that reviewed by a formal commission." It ended up that Secretary of Defense Aspin got relieved and was given the job of running that commission. He subsequently died, so then Harold Brown, former Secretary of Defense, took over. That was the Aspin-Brown Commission report. It's a healthy volume.

There was a Council on Foreign Relations task force on making intelligence smarter. It's a thin volume, but very good, done by Haass, who was project director.[4]

Oettinger: The chairman was Maurice Greenberg.[5]

Donahue: Yes, but Haass was the guy who wrote it, a guy from the NSC staff. There was IC-21, Intelligence Community 21, which was done by the House Intelligence Committee, and there was a 20th

Century Fund report called "In From the Cold," all done in 1996.

I developed this slide for other purposes, but I just want to quickly summarize it for you (figure 15). If you read all these studies, they're very informative. They tell you a lot about what's happening in intelligence.

Oversight and evaluation. They wanted to create a committee on foreign intelligence at the NSC level to evaluate somehow how well intelligence performs. I tell you right now: that never worked in 1976 when it was tried for a while, and it would never work again. You cannot take a National Security Advisor, an Under Secretary of State, an Under Secretary or Deputy Secretary of Defense, and any other combination of people, and tell them, "You will act here as judge on intelligence performance." They don't have time; they don't have the inclination; they've got too many other axes

Oversight and evaluation:
- **Re-create CFI; strengthen evaluation by consumers/CMS**

Macro-organization:
- **Strengthen DCI; create second deputy for community**

Component structure:
- **No consensus**
  - Clandestine services
  - Disciplines stronger or combined
  - More analysis, closer to policy

Mission
- **SMO; economic intelligence; law enforcement**

Resources
- **Some, but not a lot, less**

Figure 15
Management: The 1996 Studies

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[4] Richard Haass is Director of National Security Programs and Senior Fellow, Council on Foreign Relations (formerly on NSC staff).
[5] Maurice R. Greenberg, Chairman and CEO, American International Group.

to grind with this series of agencies to spend time on that evaluation. That was nonetheless a recommendation from a couple of the studies. They wanted increased evaluation by consumers, and they wanted

to strengthen the Community Management Staff, which was the successor to the IC staff.

On macro-organization, really the only uniform, key recommendations were that there should be a second deputy CIA director for the community.

Oettinger: That is coming to pass. It will be a position subject to Senate confirmation.

Donahue: There should also be a strengthened DCI in terms of personnel responsibility in particular. Some of that was passed in the 1996 Congress.

There was not much of a consensus on what to do with the component structure. Most of them said they wanted more analysis, but they were hard pressed to really bump that up.

They addressed missions: SMO stands for support to military operations, for you people who don't talk the Pentagon lingo. Economic intelligence and law enforcement were among other things mentioned.

Most of them didn't address resources very directly. They said, "Some, but not a lot, less." They wanted a little less, but no major changes. They saw intelligence as being a good in their role as policy makers. It helps them out. So they didn't call for major reductions.

If I have one message from this chart on management, it's that in 1971, when we did the Schlesinger Study, we got it about right. We said, "Strengthen the DCI's hand over resources, and over the rest of the community. Don't take it away from the Secretary of Defense; in fact, sort of create that as a dynamic tension. Make him somewhat subservient to the Defense monster, but not totally so, and give him the resource control to sort of veto these other guys, which you, Mr. Secretary of Defense, don't have the time to do. You can't call the directors of DIA and NSA and all those other people over here in 10 minutes. You've got too much other stuff to do. Let him sort of take charge of it."

In a sense, I feel very gratified that what we ended up with in 1971 under Jim Schlesinger, who later became Secretary of Defense and Secretary of Energy, came out to be pretty much right on. It hasn't changed a lot over these years. There's been tinkering at the edges; some of the things that I've said from day one were unreasonable have come to pass. But, by and large, it ended up pretty solid. End of management.

I spent an increasing amount of time on policy support through the years (figure 16). We were heavily engaged in covert action. There was an unusual budget instrument involved there. We have a reserve fund for covert action where OMB directly controls and releases the dollars. So I got engaged pretty heavily in almost every one, whether that was Contra support, or support to the Mujaheddin in Afghanistan, or a host of other things—Laos, Angola, and other things that went on.

We were talking about international satellite communications, just because one of the big arguments was that we can't have too much of it because it's going to get too unwieldy to intercept. I was also involved in commercial imagery, which was a 1994 Clinton decision to sort of promote the idea that commercial imagery could become available. Then there is encryption policy, which is still under active debate.

I didn't get to cover legislation and Congress. I think one of the really tough issues facing the DCI in the future, whether that be George Tenet or whoever, is

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- **Host of policy issues: assassinations, wiretap, involving/recruiting Americans, satellite interference, excess launchers, physical intrusions, etc. (e.g., terrorism).**
- **A few recent illustrations:**
  - Covert action
  - International satellite communications
  - Commercial imagery
  - Encryption

Figure 16
Policy

building much more public trust, not only with the public directly, but also with the Congress and within his own agency, and beginning to develop some kind of different ethical standards than those that were applicable during the Cold War.

The kinds of things that are criticized about Guatemala can now no longer be tolerated. They were tolerated during the Cold War where apparently we had a green light. There has been a report in the newspapers within the last month of 1,000 agents having been terminated by CIA—not terminated as in killed, but terminated. It was the result of CIA screening their sources and saying, "These are guys who were a little bit shady in the past, but we had to deal with them because we had this omnipotent Soviet threat. We don't have to deal with them anymore." So I think accountability is a tough issue that he has to cope with.

Student: Just to be clear: was that elimination of 1,000 people part of a strategic downsizing? Or was it in every case of this particular 1,000 a weeding out?

Donahue: Those 1,000 people were all foreign agents. There was not one CIA employee. As a result of the Guatemala episode John Deutch sent out a directive that said, "Look at all our sources, and really check them. See if they've got human rights violations problems, or if they've got criminal problems, or if they've got

credibility problems, or if they're just not pro-ductive, or if they've not given us good information. When in doubt, boot!" That was done. I think that what came out in the newspaper, which said 1,000 people were laid off, was the result of that exercise.

The last area I didn't cover is missions. I think after the Cold War there really are a lot of loose ends in the intelligence community about what the focus should be. It's probably partially true in the military as well. But intelligence is more immediate because they have a current mission, not just a contingency mission. The studies that were done really haven't been successful in addressing what intelligence should do in the future. We don't have a monolithic threat. There's been pressure for economic intelligence. There's been pressure for law enforcement support. There's counterproliferation, counterdrugs, counterterrorism, and so forth. All of those are very different types of issues from the monolithic Soviet threat that resulted in the structure of the intelligence community in the past, and they have to be addressed in terms of getting some value out of intelligence in the future. With that I'll stop.

Oettinger: On that note, we thank you. The physical smallness of this token of our appreciation does not reflect how large our appreciation is. We thank you very, very much.