

We failed to cut spending, as I think we should have and would have done if we had these figures before us, if we had an accurate, true reflection of just what the budget was going to be, and I think it would have saved us an awful lot of difficulty with inflation and high interest rates.

I want to ask you, as Director of the Bureau of the Budget, what responsibility do you feel you have to secure accurate estimates for the President and the Congress and Pentagon on the cost of the Vietnam war?

How can you pursue the figure that they give you, to determine whether it is accurate or not?

Mr. SCHULTZE. Let me make several points, in answer to that, if I can, Senator Proxmire.

Let me go first to the substance of your point with respect to the impact of underestimating Defense spending on economic policy and economic consequences, and then to the role of Budget Director.

First, I think you have clearly got to put this in the context of last year's economy. If you will look at last year's economy, you will find that the main inflationary pressures were in being during the first 7, 8, 9 months of the year. Starting in August, the Wholesale Price Index stabilized and began to recede after September. Consumer food prices began to recede after August. The Consumer Price Index itself began to inch up at a much lower rate after October. So, pretty clearly, the main inflationary pressures in the economy were during the first 7 to 9 months.

Chairman PROXMIRE. Beginning in February. In January, prices did not rise. It was in February.

Mr. SCHULTZE. They were rising to some extent in late 1965. And then there was a little tapering down and then they rose again.

Now, let us look at what happened to the Federal budget, as we predicted and as it actually occurred, taking the NIA measure.

Chairman PROXMIRE. I do not want to be rude, but my question was as to what your responsibility is in getting information from Mr. McNamara and the Defense Department, whether you can go behind his figures, or you do go behind them, or not. That is what I want to know. I want to pursue this. You can make any answer you wish, but if you are responsive, what I want to know is whether you have the right and whether you feel you have the responsibility to challenge figures that come from the Pentagon.

Mr. SCHULTZE. Then, let me reverse the order of my answer. I was going to talk first to the substance and then the procedure.

I will switch and talk first to the procedure and then come back to the substance.

Essentially, there is no simple answer to this, Senator.

In the first place, with respect to the Defense Department, the Bureau of the Budget pursues a different procedure than it pursues with respect to other departments. Other departments submit a formal budget request to the Bureau of the Budget which we review and on which we present recommendations of our own to the President. In these cases there is a formal exchange of views back and forth between us and the agency head before we see the President, and then together with the President.