

and, in fact, these advisory boards work directly with him. They don't actually work with us, but they work with the Director of Laboratories for each service.

Mr. DADDARIO. The ways in which you govern these activities are important. You talk about it being 12 percent, but that is about equal to the entire research development budget of the Department of Defense in 1946. So we are really talking about a tremendous growth area, and the importance of the way in which we manage these becomes more than obvious.

Dr. MACARTHUR. You are absolutely right in that, sir, and that is why we feel it has to be a program of continual reappraisal and special attention has to be continually paid to the labs to make sure they are viable and potent organizations.

Mr. DADDARIO. You mention your laboratory directors for each of the laboratories, do you discuss this morning the use of discretionary funds?

Dr. MACARTHUR. Yes.

Mr. DADDARIO. Let's keep going then.

Dr. MACARTHUR. I don't actually—

Mr. DADDARIO. Can we discuss that?

Dr. MACARTHUR. Yes.

Mr. DADDARIO. What is your attitude about this, and how does it work?

Dr. MACARTHUR. Well, we started the program of discretionary funds in 1962. I think it is a very important part of our laboratory program. As a rule of thumb we have approximately 3 percent of our total laboratory money in discretionary funds. In general, it differs from service to service.

For example, in the Navy it is between 5 and 8 percent. In the Army it is about 3 to 5 percent, and in the Air Force it is a little less.

In a way it depends on the flexibility the lab directors have to do work. In many ways the Air Force laboratory directors have more flexibility in financial affairs than the other service laboratories directors, and that is because of the way they are funded. Therefore, the discretionary funds that go to the Air Force is less than the other two services.

Mr. DADDARIO. You mean the Air Force would allow each of its laboratory directors to have exactly the same amount of discretionary funds, or do you establish a sliding scale mechanism where you allow some to have more authority than others?

Dr. MACARTHUR. They use a sliding scale. It is dependent on quality of the laboratory and what they have done the year before. We provide these discretionary funds, but we don't require any approval beforehand as to what they are going to do with them, but we have an after-the-fact appraisal at the end of each year. These funds are distributed by the Assistant Secretary for R. & D. in each service and depending on what the labs have done with them the year before and what the productivity has been, that determines to a great degree what they are going to get in the following year.

Mr. DADDARIO. You started off on a quality judgment when you initiated the program and then you used basically a reward system?

Dr. MACARTHUR. That is right.

Mr. DADDARIO. How good were you? Did it work out pretty well the way you expected?