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THE FEDERAL BUDGET

6 December 1950

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Mr. Frederick J. Lawton, Director, Bureau of the Budget, was born in Washington, D. C., 11 November 1900. He was graduated from Georgetown University in 1920 and received his LL.B. degree from Georgetown University in 1934. He started his career in government service in 1921 and served in various accounting and administrative positions in the Treasury Department until 1935. He has been an executive of the Bureau of the Budget since 1935. He was executive assistant to the Director for ten years before becoming assistant director, except for five months in 1948 when he was an administrative assistant to the President. He served as special adviser to the Senate Select Committee on Government Organization from 1937 to 1939. He was appointed Director of the Bureau of the Budget on 13 April 1950.

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**GENERAL HOLMAN:** Gentlemen, the Federal Budget is probably the most important single document issued by the Government each year. It not only affects our complex economic structure but is a basic document to our national security. It affects each and every one of us here--as taxpayers, as individuals, and as members of the armed forces. It affects every industry, every business, every home in our land, and, in more recent years, millions of people abroad.

We feel very privileged and honored to have with us this morning, Mr. Frederick J. Lawton, Director of the Bureau of the Budget, who will discuss for us "The Federal Budget." Mr. Lawton.

**MR. LAWTON:** Gentlemen, I am very much pleased to have this opportunity to meet with the faculty and students of the Industrial College of the Armed Forces to discuss budgeting in the Federal Government.

The budget which the President sends to Congress each year--what it represents and how it is prepared--has become increasingly important in recent years. Just 40 years ago the Federal Government's expenditures were less than 700 million dollars, or about 2.5 percent of the total national income. At this level government spending was regarded as a necessary evil, taxes as a periodic annoyance, and bureaucracy as primarily a source of political patronage. The country was rich and the Government was small. Problems presented by government spending, by government borrowing, or by debt management were of little popular concern and barely understood.

I don't have to dwell on the dramatic reversal that has occurred in the last 40 years. Today about 20 percent of our national income is required to meet the costs of government, and there is a fair chance that this percentage will rise. The economic and social implications of taxing, spending, borrowing, and debt management are of far-reaching importance to all of us. The Federal Budget has become one of the most potent elements in the economic life of the Nation. Because of its importance, the Federal programs and fiscal policies which the budget represents must be formulated carefully. A proper, realistic, and painstaking balance must be reached between the pressing demands placed upon us by external and internal forces.

We cannot regard the budget as a mere balance sheet or a jumble of figures. It must be regarded as what it has become--the Chief Executive's expression of national policy.

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Yet it was not until 1923 that there was a government budget as we know it today. Up to that time the annual requests of the various departments and agencies were simply added up and submitted to the Congress. In the executive branch there was no attempt to fit the various segments into a well-balanced program. Within the Congress itself the various appropriation requests of the executive branch were reviewed and enacted independently by separate committees. Under such conditions it was obviously impossible for the Government to obtain an over-all picture of its financial requirements.

The Budget and Accounting Act of 1921 established the principle of presidential responsibility for developing an Executive budget. This legislation removed, in effect, the initiative from the hands of the various agencies and gave to the President the responsibility of reviewing their needs, of adjusting and balancing their requirements, and of reaching a decision as to what should be included in the Government's fiscal program. The Bureau of the Budget was created by this same act to assist the President in carrying out these responsibilities.

Since the Budget and Accounting Act of 1921, additional laws and Executive orders have given many varied and important duties to the Budget Bureau. In addition to its primary concern with the preparation and administration of the budget, the Bureau is also engaged in the improvement of government organization and management; the coordination and improvement of government statistics; and the review, coordination, and analysis of legislation.

In establishing the Budget Bureau as a presidential staff organization, the Congress drew a clear outline of the idea which in 1939 culminated in the formation of the Executive Office of the President. Upon its transfer from the Treasury Department to the Executive Office, the Bureau undertook a more active part in the general management of the executive branch and in the strengthening of budgetary controls.

Under present laws Federal budget making divides itself into three main stages: First, there is the work that must be done by the departments and agencies themselves; second, there is the work assigned to the Budget Bureau, leading up to the President's determination of its final proposal; third, there is the stage of legislative review and decision—the work of Congress.

Many months before the end of the fiscal year the department heads and their principal advisers, including their budget officers, prepare a preliminary work plan for each agency as a whole, compare the tentative work plan with the President's budget policies, and examine all departmental operations in an effort to secure the greatest degree of economy and efficiency.

Having had very close scrutiny on the departmental level, the estimates are submitted to the Budget Bureau more than nine months before the beginning of the new fiscal year. Every estimate is analyzed by experienced budget examiners familiar with the programs and operations of particular agencies. The main issues are drawn to the surface. Previous action by Congress is studied for its possible effects upon the estimates. Tentative determinations are made as a basis for subsequent hearings conducted by the Bureau, in which we take a closer view of the assumptions and reasons underlying each individual proposal. At the same time, department heads, together with their key executives and staff advisors, work with the Budget Bureau to develop the facts on which the ultimate decision must rest.

In surveying each program, the Budget Bureau staff is in a strategic position from which to look at the executive branch as a whole. From this vantage point we can identify the points at which related programs of different agencies appear to impinge upon one another. It is then our responsibility to work with the agencies concerned to find acceptable solutions to these problems.

This process, of course, does not reduce itself to mere arithmetic. Often the question is not simply one of figures, but of appraising the relative advantages of different administrative means to accomplish the ends that Congress has defined by statute. For example, the Social Security Act contemplates particular objectives to be achieved in the public interest, but there may be different ways of reaching the goal. Hence, our work must extend beyond the evaluation of the scope and character of basic programs. It must also concern itself with that kind of economy which comes from the most efficient method of operation.

The founders of our national budget system had this point in mind when they made it the duty of the Budget Bureau to devote part of its efforts to the continuous study of the organization and working methods of the executive branch. Thus, one of our divisions deals primarily with the promotion of better administrative management, including direct assistance to the departments and agencies in attaining a high measure of efficiency. This effort to achieve a better-run government is a continuing one that goes on every day in the year in order that the taxpayer may get his money's worth from government services.

The recent work of the Hoover Commission has aroused nationwide interest in achieving better governmental services through improvements in organization and management. Partly as a consequence of this work, the record of achievement during the past two years has been outstanding. During 1949 a significant proportion of the recommendations of the Hoover Commission was put into effect by law, by reorganization plan, and by administrative order. In addition, since March of this year, the President has transmitted 27 reorganization plans to Congress. Twenty of these plans are now in effect, six were disapproved by the Senate, and one was disapproved by the House. All these plans either applied specific recommendations of the Hoover Commission or were consistent with the general principles of government organization laid down by it in its reports.

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With the 20 plans put into effect, the proportion of the Commission's recommendation which can be acted upon through reorganizations plans will approach 50 percent of completion. Never before has so much of a comprehensive plan for reorganizing the Government been put into effect within such a short period of time.

These accomplishments have enabled us to move ahead toward the achievement of three principal objectives:

One, the strengthening of executive responsibility at all levels in the executive branch.

Two, the improvement of central staff and administrative services for the entire executive branch.

Three, the grouping together of similar governmental functions in the important fields of transportation, labor, housing, and general governmental services.

Other significant improvements in governmental administration have been made possible as a result of the Executive order by which the President directed the head of each department and agency to make systematic reviews of the way in which his organization is carrying out the responsibilities assigned to it and is developing plans for internal management improvement. This order also set up the President's Advisory Committee on Management—a group of outstanding representatives of business, industry, and government who assist the President in finding solutions to some of the broad-scale management problems which we face.

In addition, Title X of the Classification Act authorizes cash awards and promotions for Federal employees who suggest more economic or efficient ways of performing their work. This provision has given impetus to the efforts of the departments and agencies to adopt improvements in their internal operations. By means of this award system, a permanent program for management improvement has been instituted which is expected to produce economies and efficiencies of lasting value.

I might say that yesterday, in a discussion of the management program of the Department of Defense, while General McNarney was briefing the President's Advisory Committee on Management, he stressed this particular factor as one of the important ways that management improvement could be brought down to the lowest echelon and consideration and thought given to it there. General McNarney felt that it was one of the ways by which management could rise to the top rather than be dictated to from the top down.

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With this record of past improvements, and with the continued public, congressional, and presidential interest in better management, it is important not only to maintain an active program to achieve further specific improvements, but also to work for the establishment of a management system in the Government which will continue to function effectively in the years to come.

In performing its management--improvement activities, the Bureau carries on a variety of continuing tasks in addition to the programs I have already mentioned. These activities include:

1. Carrying out the changes which the reorganization plans approved by the Congress recommend.
2. Following up to see that the reorganizations accomplish the desired end and are not merely "paper reorganizations."
3. Studying organization and operating methods for such programs as the administration of foreign policy, scientific research, credit and bank supervision, and regulatory agencies.
4. Improving and simplifying procedures used by all governmental agencies. In recent years special attention has been given to budgeting and accounting, property management, and personnel procedures.
5. Developing improved methods of inventory control, supply cataloging, property utilization, and the maintenance and use of automotive equipment.
6. Exchanging information with other parts of the executive branch on successful management practices, so that one agency of government can take advantage of improvements that have been made by others in similar fields.
7. Assisting the agencies to solve specific problems. This assistance ranges all the way from conducting a topside organizational study in the Department of Interior, for example, to advising on the use of addressograph machines in the Atomic Energy Commission.

The Bureau sponsors and engages in these activities as a part of its responsibility to preserve and improve the capacity of the Government to serve the public economically and well.

In 1939 when the Bureau of the Budget became part of the Executive Office, the President delegated to it the job of obtaining for him the views of the agencies and departments on proposed

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legislation, pending bills, enrolled bills, Executive orders, and proclamations. He has also delegated to the Bureau of responsibility for communicating his position on these matters to the agencies for their guidance and to the Congress for its information. This clearance function arose out of the necessity for reviewing proposed legislation to determine its fiscal and budgetary implications, and the necessity for having a central point to coordinate for the President the views of the agencies on enrolled bills.

All agency proposals for new legislation are referred to the Bureau in order:

1. That they may be analyzed from the point of view of their fiscal implications, in the same general manner as direct budgetary requests.

2. That they may be referred to all other interested agencies in order to prevent conflicting or overlapping requests being made to the Congress.

3. That the President can determine the relation of each major proposal to his general program and policies.

In cases where an agency proposal conflicts with other agencies' programs and responsibilities, or where the request is inconsistent with the President's policies, the Bureau assists in working out the matter by interagency conferences or by direct referral to the President. Once this is done the agencies concerned are advised of the relationship of the proposal to the President's program, so that a statement of this relationship can be included in letters transmitting legislative proposals to the Congress.

In a similar way, agency reports on pending legislation are also reviewed and coordinated by the Bureau. When congressional time schedules do not make this possible, agencies are authorized to make their reports directly to the committee without prior submittal to the Bureau. During the Eighty-first Congress approximately 10,000 agency reports on general legislation were reviewed.

The Bureau also handles enrolled bills in a similar fashion. These bills, passed by the Congress, are referred to interested departments and agencies for their comments and recommendations. The Bureau then furnishes the President with the views of the agencies, together with an analysis of the enrolled bill, including an estimate of its cost and its effect on the current programs of the executive branch. The report to the President also includes any action documents necessary to put legislation into effect, such as public announcements, Executive orders,

proclamations, and letters to agency heads. Similarly, when the President decides to veto legislative enactments, the Bureau, together with the agencies and the White House staff, prepares drafts of veto messages for the President's consideration. During the sessions of the Eighty-first Congress to date reports were prepared on a total of approximately 2,000 enrolled bills, of which over 1,900 became law, including 3 passed over a Presidential veto. Seventy-five of these bills were vetoed and the vetoes sustained.

In much the same way, Executive orders, proclamations, public land orders, and similar types of presidential documents are submitted to the Bureau of the Budget for appropriate review and clearance. In some cases these documents are prepared in the Bureau.

As part of the regular budget process, the Bureau requests each agency to submit a preliminary **proposed legislative program for the coming year**, along with its regular budget submission in September. This enables the Bureau and the President to make the budget a more complete document, reflecting financial data for all presidentially approved proposals known at the time. This task, although closely related to the review and coordination of specific legislative proposals made by the agencies, serves the further purpose of placing the procedure on a more systematic basis, and permits more time for study and analysis of the proposals in proper relation to the total budget outlook at the time. As a result, the agency is better able to establish work priorities and formulate final **plans** for the coming congressional session.

I have been emphasizing, so far, the manner in which we review major government programs, our endeavor to improve the way in which these programs are administered, and the type of staff assistance which we provide the President. Let us now turn briefly to that part of the process which gives special attention to the relation between budget expenditures and the Nation's economy, and to balance and consistency among government programs.

The Bureau's Division of Fiscal Analysis reviews related programs carried on by different government agencies. This is a broad program review which may take either of two forms: the detailed and comprehensive analysis of a broad area of Federal activities in order to lay down guidelines for Bureau action in the future; or spot studies of particular problems arising within particular program areas.

An example of the comprehensive review of a broad area of Federal activities carried on by different government agencies can be seen in a recent project dealing with educational activities of the Federal Government. The project arose from the fact that there are more than

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100 Federal programs involving expenditures for education, training, and research. These programs are administered by a score of Federal agencies and represent an annual expenditure of several billion dollars.

The need for facts on which to base a clear and comprehensive Federal policy prompted an intensive Bureau study both in Washington and in the field. This study included (1) an analysis of the nature and scope of existing Federal educational programs and related policies, (2) determination of the basic problems which the Government faces in its relations with educational institutions and systems, and (3) development of recommendations for use in the formulation of a consistent and unified policy in this field.

Other major programs which have received similar study in recent months include a review of the general communications policies regarding direct operation of transportation and communications facilities in peacetime, and a study of the feasibility of proposing the adoption of user charges for federally provided facilities and services.

As a part of its review of government programs, the Bureau conducts special studies of government-wide problems of a financial nature. One study, for example, deals with loans and loan guarantees. This study is aimed at developing a clear-cut picture of the extent and potential budgetary impact of existing and proposed loan and loan guarantee programs, at isolating the major common or related policy problems, at developing over-all criteria useful from a standpoint of both legislative action and policy review, and at exploring the present and possible future ways of achieving coordination between these programs and the over-all fiscal and economic policy of the Government.

Another project has resulted from the growing concern of state and local governments over acquisition of real property by the Federal Government. As a result, the Bureau has taken the lead in formulating a set of recommendations on payments to state and local governments on account of federally owned real estate. These recommendations will be developed into draft legislation to be presented to the Congress.

The continuing review of broad government programs gives the Fiscal Analysis Division the information and background needed to take the lead within the Bureau in developing budget policies and assumptions. This division, for example, prepares periodic "previews" of the budget outlook for the current fiscal year and for one, two, or more years ahead. These enable the Federal Budget Director, the Council of Economic Advisers, and the President to consider broad questions of fiscal policy. These previews are also of basic importance in establishing the tentative planning figures which guide agencies in preparing their budget estimates. This group also develops economic assumptions to be

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used in preparing the budget, and prepares recommendations on over-all fiscal policy dictated by those assumptions.

In order to provide the Bureau staff with first-hand information on government programs in the field, we maintain a small Field Service with offices in Chicago, Denver, Dallas, and San Francisco. The Field Service provides the central office with examinations and analyses of agency operations and programs in the field, where approximately 90 percent of the total personnel of the Government is engaged. This information directly assists the Bureau in its job of reviewing the programs, budgets, and management practices of the agencies.

The Field Service also explores the working relationships among Federal agencies and between the Federal Government and state and local governments. The field offices serve as eyes and ears for the Bureau, informing the central office of emerging policy and program problems as they first appear in field operations. In many cases suggestions for the elimination of waste and inefficiency are adopted on the spot. In any event, reports are made to Washington, where action can be taken to solve the problems before they become too serious and to effect savings through improvements in administration and management of agency field operations.

Our other, and last, major area of responsibility in the Bureau is the duty of coordinating and improving Federal statistics. These responsibilities are aimed primarily at simplifying and reducing the number of government forms, so as to minimize the burden on the general public and on private business involved in the collection of data by the Government, and to eliminate duplication and waste in the statistical work of different agencies. We also seek to insure consistency and uniform definition in related statistics and that the most modern and economical methods are used in the collection, analysis, and presentation of statistics. The Bureau's Division of Statistical Standards is the principle place in the Government where adequate information exists on the statistical data available from each agency, how good these data are for specific purposes, and how the Government can most economically obtain the factual information it needs for broad policy decisions.

All these responsibilities, functions, and activities are not, after all, theories or abstractions; they represent the result of the hard, long work of a great number of specialists. The work and skills of these people are brought into focus in the preparation of the President's Budget.

All these specialists contribute their share of knowledge to the examination of departmental requests. There is thus a blending of judgments and a pooling of resources that lifts budgeting above a mere

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calculating job. Through utilization of all its staff resources, the Bureau is frequently able to suggest to the departments and agencies practical ways of carrying out particular programs at lower cost.

On the basis of our year-round examination of estimates, our management studies, the review of legislative proposals, and the broad-scale analysis of fiscal policies, together with the additional information obtained through the budget hearings, we are able to place before the President a coherent budget proposal for the entire executive branch, with a precise indication of the problems that require his study and decision.

It is certainly clear that we could not undertake an assignment of such vast scope without the great contributions toward this end made by the departments and agencies themselves. It is equally clear that our recommendations would mean very little without our working knowledge of how things stand in the various agencies.

Needless to say, final action on the Bureau's recommendations is taken by the President. Because of his prior service on the Appropriations Committee and his experience on the War Investigating Committee, President Truman has a rather keen grasp of budgetary problems. He has always devoted considerable time to the consideration of the estimates entering into the Annual Budget. In the last 30 days, for example, we have had 10 conferences with the President, each devoted to one segment of the budget. As the recommendations of the Bureau are prepared for a group of departments or agencies, they are presented to the President, discussion of the policy issues is had, and decision is reached by him on these issues. The budget, in the truest sense, is the President's own work—it is his program.

Such a comprehensive and coherent fiscal program for the entire executive branch differs substantially from a mere accumulation of various agency programs. It is something more constructive; it is a more productive means for serving the public interest.

It is in this way that the Federal Budget, in its final form, compounds a great many specific judgments and preferences into a unified program for the benefit of the entire Nation.

Thank you.

QUESTION: Mr. Lawton, would you comment on the distinction between program coordination and planning and budget planning? I am thinking now of the function performed during the war by Mr. Byrnes' Office of War Mobilization and Reconversion, an over-all coordinating

and planning agency, as distinguished from the work of the Bureau of the Budget, and I am wondering whether there is a proper place for two such separate executive agencies in peacetime. I am thinking of the thesis developed by Herman Somers in his book "Presidential Agency," which you have doubtless read.

MR. LAWTON: Let us consider that question, first, in its specific relationship to peacetime. There are specific needs in certain areas. For example, the Hoover Commission recommended a group of that type to deal with the general problem of resource development in the country—the programs of reclamation, power, flood control, river and harbor improvements, river basin improvements, and so forth. There is a national advisory committee that deals with financial problems of an international nature. There are certain other groups, more or less composed of interested agencies on an interdepartmental basis, that deal with problems of housing and things of that sort. There is not the same need in peacetime as there is in wartime for a central coordinating group over these other coordinating groups; they can be handled largely through presidential staff assistance rather than through an organizational unit.

The need differs entirely when we are in a period of either mobilization or demobilization. Then there are decisions that must be reached speedily and with authority, decisions that the President just does not have the time to review in their detail. We could not get along at present without an organization such as the National Security Resources Board. It is really, in its method of operation at present, a successor to the Office of War Mobilization. We will need a similar type of agency when the reconversion problems come to pass—as I hope they will. But the Bureau's role in those cases is usually a facilitating one of fact gathering and consultation, so that financial programs that carry out major policy decisions are properly implemented in a budgetary sense, and so that the right amount of dollars is there, but not too great an amount.

We deal very closely, as a matter of fact, with the NSRB at the present time, serving on several of its committees and participating with its staff in exchange of information or furnishing such information as is available to us. But the decisions should be made by a group that can devote its entire attention to that problem, because it is too big a problem to throw on an agency that has as many normal and regular duties as we have.

QUESTION: Mr. Lawton, what budget and fiscal review does the Bureau of the Budget exercise over those agencies that have both a legislative and an executive connotation, regulatory agencies like the Federal Power Commission, and others of that nature?

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MR. LAWTON: We exercise the same control over the regulatory agencies that we do over any other executive agency of the Government.

The distinction is with respect to the agencies in the judicial branch of the Government as such, over which we have no direct control in the sense that we can determine a figure of a legislative proposal; but we do have, with respect to the Judiciary, the right to comment and make recommendations to the Appropriations Committee.

As to the purely legislative agencies, we have no control at all. Our only function there is to include, without change, the estimates of appropriation they present to us in the total budget picture.

In the case of the District of Columbia, we have adopted the policy of taking a look at the total picture, and we confine ourselves to a review of whether the total program of expenditure presented is within the revenue of the District. It is merely a question of a total balance and a decision on the amount of the Federal contribution. We do not go into detail as to the various estimates of appropriation.

In the case of the oldest of the regulatory commissions, the Interstate Commerce Commission, we do have a bit of a problem in that it very seldom clears legislative proposals with us, although it is kind enough to send us a copy.

QUESTION: Mr. Lawton, would you comment on the work of the Bureau in its job as a legislative clearance agency, particularly with respect to your ability to influence legislation in its formative stage through your contacts with the Congress?

MR. LAWTON: We try to avoid direct contact with Congress, preferring to let the agency primarily responsible for a piece of legislation make those contacts after having received notice as to the relationship of that particular piece of legislation to the President's program. In developing advice as to the relationship of a particular piece of legislation to the President's program, we, of course, check with all other interested agencies.

However, in recent years, particularly during the last two Congresses, we have had a great deal of contact with the committees, on the basis of furnishing our own analyses and factual information with respect to legislative programs. As a matter of fact, in the case of the expenditures committees, every piece of legislation they handle is referred to us for our own comment, in addition to the coordinated

views of the various agencies. The same thing is true in the case of the Committee on Education and Labor in the Senate, and one or two other committees.

Generally, we testify only on problems that are government-wide in scope. And one of the particular reasons why we deal so closely with the expenditures committee is that most of their legislation cuts across all governmental agencies.

We are called on, from time to time, on other problems. Today, for example, we are testifying on the question of National Service Life Insurance because we have made a study of the subject for the committee at its request.

Normally, we attempt just to guide the agency, and then the agency makes the contact with the Congress.

QUESTION: Mr. Lawton, would you please comment on the relationship between the Hoover Commission and the Bureau of the Budget in connection with the review of organizational features of the Government? In other words, why was it necessary to have a commission do what the Bureau of the Budget is required by law to do?

MR. LAWTON: I can answer that in two ways. First, from a practical point of view, to make progress rapidly we need a tremendous amount of drive. To get that kind of drive and to exert the kind of influence on Congress that is needed, we cannot expect a congressional group to rely wholly on the executive branch--the congressional group is suspicious of the executive branch and believes it engages in far too many self-serving declarations. A group of outstanding citizens, devoting considerable time and attention to it and making it a major effort, can exert a degree of influence on the Congress and the people, and through the people back on the Congress again, that no government organization could exert.

The other reason, of course, is the fact that the Hoover Commission was established, as you know, by the Eightieth Congress, which I don't believe would have given too great weight to recommendations of the Administration at that time.

Actually, we worked very closely with the Hoover Commission, in particular, with respect to three or four phases of its work. On the question of property management, it took over some of the staff members that we had had operating in that field and made them a part of its task force. In the case of the general, broad picture of executive responsibility, which Mr. Hoover himself handled, his immediate staff

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assistant was a man who formerly had been on our staff; and much of the basic and detailed work and information was furnished by our staff. One of our men was the adviser to the task force on agricultural problems. We discussed with the Commission many of the problems in other fields.

I think that we could not have gotten the Citizens' Committee, with all the effort and impetus it has given to reorganization, through any government agency. It required an outstanding group of people headed by a really outstanding man.

QUESTION: Could you tell us how the Bureau of the Budget reviews highly classified budgets and expenditures of the Government? Does it do it?

MR. LAWTON: The Bureau does review them, including those of the Central Intelligence Agency, the Atomic Energy Commission, and others. All the people who deal with those subjects are security-cleared, with top security clearance.

We have groups of people who specialize in certain areas. We confine each group, so far as possible, to a limited number in any particular field so that there is not any one person or group that deals with all the sensitive programs. In the early stages of atomic energy, we kept that group right in the office of the chief of the Estimates Division. In the case of the Central Intelligence Agency there are three people who deal with it—no one else in their group knows anything about it. In the case of the Research and Development Board, the Special Weapons Project, and things of that sort, we have other limited groups of one or two.

We deal with those programs essentially in the same fashion that we deal with the normal government programs of agencies—we give them the same sort of review—but we do it through a much more confined grouping of people.

QUESTION: We have been reading in the papers recently about two agencies of the Government that were charged by a legislative committee with being overstaffed and of wasting funds. To what extent does the Bureau of the Budget, in the management function, get into the operations of these agencies or control the expenditures made within the agencies themselves?

MR. LAWTON: To a very limited degree: first, by reason of limitation on staff time; second, by a conscious effort on our part to develop that type of management surveillance in the agency itself.

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We feel that it is the responsibility of the head of the agency and the heads of the major bureaus to so staff themselves that they will be able to keep their own operations under more or less constant review. We have attempted, through educational processes, through the furnishing of funds in some cases, and through a general needling process, to get agencies to do that kind of job.

We have devoted ourselves primarily to rather broad-scale items in the procedural field that cut across government agency lines--such things as property management and personnel procedures. And even in the case of property management, since the creation of the General Services Administration, we have tried to shift a lot of that burden to that agency.

The question of overstaffing is one that, of course, we don't like to see come out in the public press, because, to some extent, a lot of people are asking, "Where were you when that happened?" But we just don't have the staff resources to do that kind of job, and we don't attempt to do it. We think we can convince the department head that it is his job to do, and it is on his head that criticism is going to fall when cases of that sort, if they are proved, are developed by congressional committee.

QUESTION: Mr. Lawton, would you take us behind the scenes on one of the budget conferences with the President, to show how the Budget is an expression of national policy?

MR. LAWTON: In preparing for a presidential conference, we digest the high points of an agency estimate, together with our proposed action on it. We indicate major changes in program, major differences of opinion between ourselves and the agencies, and then get the President's guidance on those items. To go back a bit further, we are governed in part by policy decisions that he has made earlier in the budget process when he has established budgetary ceilings for agencies. We show him a preview picture of what we think the budget is going to look like on the basis of the agencies' requests, what new legislation has been enacted and what its effect will be, and what our probable revenue is going to be. In some of the major spending fields, fields that relate to spending this year and have an impact on a number of succeeding years, such as the general field of public works and reclamation, we will make a decision as to whether we are going to start new programs, and, if we are, what type. Then we come to the final discussion on the specifics of those programs.

The other day we had a number of areas in which new programs had been proposed. We discussed the question of the feasibility of those

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programs, in view of the current situation, in their relation to defense. We had made a recommendation that we eliminate any expansion except as it related to demonstrated defense needs. The President agreed with it. The Secretary may or may not. If not, he will go to the President, or he will come to me first and then go to the President if I cannot satisfy him. But if he agrees, the issue is closed.

In the case of new legislation, we may make a recommendation that we should not have new legislation in particular fields because of an anticipated budgetary situation in a later year. It is really a matter of pulling up to the surface the highlight problems that are involved in each particular agency.

Because of political implications, we get down to some very minor items at times. Whereas we may be dealing with a half billion dollars in one issue, we may be dealing with a few hundred thousand dollars in another. For example, in the antimonopoly program, the question of whether we should hold still, move up, or retard it a bit, is a question that he may want to decide; and because of its place in the general Administration program, the President has to know that this issue is present and has to make a decision with respect to it.

Those conferences, by the way, usually last anywhere from a half hour to an hour.

QUESTION: Mr. Lawton, this is a kind of worm's-eye question; it concerns the Department of Defense. As budget presentations are made by the various activities in the Department of Defense, they come to some stated amount. Generally speaking, the experience is that, after so many hearings, the Department of Defense comes out with a somewhat smaller amount; the Department of Defense presents one total, which, after clearance with the Bureau of the Budget, gets to be somewhat less. Could you comment on the information available to the Bureau of the Budget that brings about, and the basis for, those reductions?

MR. LAWTON: The information that is available, of course, is that which is developed through constant contact with budget examiners and people in the Department of Defense, at the military department level and at the top level in the Office of the Secretary of Defense. There is information developed at the hearings and through analyses of the hearings.

Some of the changes are made on a feasibility basis; some of them, on the basis of the fact that estimates sometimes are derived

on a formula basis that may be a little old and has not been brought up to date to reflect the current situation; some may relate to price assumptions.

Just to be a little specific, although the last review was admittedly very hurried, still there was time to find out that in one place there was a proposal to spend \$15,000 rehabilitating a set of quarters that cost initially \$13,000. In the case of permanent installations of long years of standing, there were proposals for major rehabilitation, things that did not affect the current defense effort at all. We threw out things like that. They are the same kind of projects that we are throwing out everywhere in the civilian branch at this time.

We did not attempt at all to challenge basic program assumptions. In other words, forces, strength, and things of that sort, were accepted as stated.

The question of whether an item could be achieved this year, or whether it might more properly be a 1952 or 1951 item, was a determining factor in some cases.

In the public works field, certain items come in that are not authorized. We may hold the items up pending authorization by the Congress, since those must be authorized first by the Armed Services Committees of the two Houses before they may become a subject for consideration by the Appropriations Committee.

In this last go-round, we spent a great deal of time working with the budget office of the Secretary of Defense and with some of the budget people in the military departments, on a preliminary basis, before the estimates were actually submitted. As a matter of fact, we got the total estimate on 30 November 1950 officially, but we had finished the hearings three days before.

COLONEL CAVE: Would you tell us a bit about the coordination of the Bureau with the Council of Economic Advisers, leading to the ultimate over-all size of the budget?

MR. LAWTON: The Council of Economic Advisers primarily is engaged in a long-run view of the economy and the general policies that will contribute toward full employment. That is their charter. In that, of course, they deal to a great extent with the civilian economy. We contribute information as to governmental programs, their impact currently, and their possible future impact, so that they can have a projection of the effect of government spending on the total economic picture.

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As a matter of fact, at the time the Council was organized and brought into the Executive Office building, we moved our Fiscal Analysis Division to quarters that are adjacent to the Council's quarters. The staffs are constantly dealing together on major governmental programs that have a major impact on the total economy. All our economic assumptions--for prices, general economic activity, and so on--that will affect the budget of a particular year are checked several times during the budget process with the Council of Economic Advisers. Just the other day we had a meeting with them on the housing program that we were including in the 1952 budget, to get their ideas of what the effect of certain levels of housing would be on the total economy. We keep in close touch with them, particularly to get their views on the broad situation, so that we can apply them to the governmental side.

COLONEL HARDENBERG: Mr. Lawton, on behalf of the Commandant, the staff, the faculty, and the student body, I thank you for a very informative lecture.

MR. LAWTON: Thank you.

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