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THE FEDERAL BUDGET

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17 December 1952

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Mr. Frederick J. Lawton, Director of the Bureau of the Budget, was born in Washington, D. C., 11 November 1900. He was graduated from Georgetown University in 1934. From 1921 to 1935 he filled various accounting and administrative positions in the Treasury Department. From 1937 to 1939 he held a special assignment as adviser to the Senate Select Committee on Government Organization. A career man in government service, Mr. Lawton was executive assistant to the Director of the Bureau of the Budget for ten years before becoming assistant Director, except for five months in 1948 when he was an administrative assistant to the President. During 1947 he also served as acting assistant director of the Bureau of the Budget. He has been an executive of the Bureau of the Budget since 1935. He was appointed to his present position by the President on 13 April 1950.

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ADMIRAL HAGUE: I have often been impressed with the fact that so much depends upon the point of view. Those of us who have had to run the gauntlet with our proposed estimated expenditures of our departmental offices and later the Bureau of the Budget have at times, I fear, felt that our departmental office was peopled by imps and that the Bureau of the Budget must be presided over by the archfiend himself. On the other hand, when we put on our taxpaying spectacles, for some reason or other, the denizens of the departmental office are cherubim and seraphim and we are apt to feel that the Bureau of the Budget is presided over by none other than the archangel Gabriel.

However, we look at it, I think it is certain that the Bureau of the Budget, like the airplane which had its first flight 49 years ago today, is here to stay. Certain it is that we could not arrive at any reasonable, coordinated, balanced program of Federal expenditures without the work of the Bureau of the Budget, and it behooves us to learn all that we can about the process.

We are very fortunate this morning in having the Director of the Bureau of the Budget, Mr. Frederick J. Lawton, to speak to us on "The Federal Budget."

Mr. Lawton, it is a great pleasure to welcome you to the Industrial College of the Armed Forces.

MR. LAWTON: Admiral Hague, gentlemen of the College:

I welcome this opportunity to talk to you this morning about the Federal Budget, not only because the Budget is of tremendous importance to all of us--as government officials, as citizens, and as taxpayers--but also because you gentlemen, in your future assignments as military planners, will help to make decisions which will determine the size and composition of the largest part of the Budget.

In the fiscal year 1953, which began 1 July 1952 and ends 30 June 1953, total budget expenditures were last estimated at 79 billion dollars. Nearly 70 percent of that amount--53 billion dollars--will be for military services, including the stockpiling of strategic materials and military aid to our allies under the Mutual Security Program. That's more than five times as much as it cost to run the entire Government in 1940. It will be equal to more than one-sixth of the national income in

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1953, and will amount to more than 300 dollars for every man, woman, and child in the country. With a military budget of this size, I'm sure you will agree that all of us have a responsibility for seeing that the people of the United States get a dollar's worth of defense for every dollar of their money the Government spends for defense. This responsibility will continue to be great for many years to come, because of the need for maintaining a strong military posture for as long as our national security is threatened.

In discussing the Budget with you this morning, I think it will be helpful if I first talk about what the Budget is, and then go on to describe how the Budget is prepared and administered, the relationship of the Budget to our national economy, and some of the problems of budgeting in a defense emergency.

What the Budget is

The Budget is one of the most important documents published by the Federal Government. It's a big document--thicker than the Washington telephone directory and just about as full of numbers--and it's a complicated document. Because it's so big and complicated, it's not a best seller. I wouldn't recommend it as light reading, but I would recommend to you a 44-page summary of the Budget, called "The Federal Budget in Brief." This little booklet describes in clear, understandable words and charts, just where the Budget dollar comes from and how it is spent.

I said a moment ago that the Budget is a most important document. It is important because it represents the work plan of the entire Federal Government. It spells out in detail just what the Government plans to do in a given fiscal year, how much the work will cost, and how the cost will be financed.

Translated into taxes to be collected, money to be spent, and services to be provided, the Budget affects all of us in countless different ways. It affects the size of our incomes, the prices we pay for goods and services in the market, and the security of our Nation. As Gladstone is reported to have said more than a half century ago: "Budgets are not merely affairs of arithmetic, but in a thousand ways go to the root of the prosperity of individuals, the relations of classes, and the strength of kingdoms."

Evolution of the Present Budget System

In view of the importance of the Federal Budget, it may surprise you gentlemen to know that up until 30 years ago there was no integrated Budget for the entire Government. Up until that time, each agency sent its requests to the Congress as part of the Treasury's Book of Estimates,

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without regard to what any other agency was requesting, and without any regard to the total amount being requested by all agencies. Under such conditions, it was obviously impossible for the Government to obtain any over-all picture of its financial requirements.

The Budget and Accounting Act of 1921 put an end to this chaotic system of multiple budget estimates, and established the principle of Presidential responsibility for developing an Executive Budget. It directed the President to review the needs of the various agencies, to bring them into harmony with one another, and to present to the Congress each year a single work program for the entire Government. The act also created the Bureau of the Budget to assist the President in carrying out his new responsibilities. The Bureau, although under the President's direction, was originally located in the Treasury Department, but under the Reorganization Act of 1939 it was made a part of the newly created Executive Office of the President.

Today, the Budget is a carefully worked out and thoroughly considered program of action. The patchwork of individual agency estimates has been replaced by a single, unified plan representing the President's judgment as to how the Government can best meet the needs of the Nation. I hardly need to remind you that not a single dollar can be spent to carry out the President's recommendations until the Congress gives its approval. The Constitution specifically provides that "no money shall be taken from the Treasury but in consequence of appropriations made by law."

How the Budget is Prepared and Administered

Preparing the Federal Budget is a year-round job. It begins anywhere from 12 to 15 months before the opening of the budget year. The first step is the development of a set of proposed policy guidelines for use by the agencies in preparing their Budget requests. These proposed guidelines, based on the fiscal, economic, and, currently, the international outlook, are worked out in consultation with the agencies and by the best kind of analysis which we can do in the Budget Bureau, with the help of the Council of Economic Advisers, the National Security Council, the Federal Reserve Board, the Treasury Department, and other agencies. The assumptions are checked and rechecked, and finally, early in May, we take to the President what we call a Budget preview.

In that preview, we say in effect: "Mr. President, on the basis of the best assumptions we can make at this time with respect to international conditions, the level of economic activity, and the trend of major government programs, this is the Budget outlook." After this discussion with the President, budget ceilings are not fixed amounts within which the agencies are required to stay. Rather they are planning figures, for use by the agencies in preparing their Budget estimates.

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In the present emergency, the Department of Defense is not subject to the ceiling process, but its estimates--based on military plans approved by the National Security Council--are carefully reviewed by the Budget Bureau and, of course, are subject to approval by the President.

After the proposed policy guidelines and Budget ceilings are approved by the President, they are sent to the agencies with the traditional call for estimates. In the meantime, agency heads and their budget officers have already begun the job of forecasting their program workloads. Within the framework of the policy guidelines and the ceilings, the agencies prepare their budget estimates. And here I want to emphasize a very important point. We in the Budget Bureau feel that the basic job of budgeting has to be done within each agency. Nowhere else can the detailed job of program review and analysis be done better and more effectively. Nowhere else can the job of management improvement be done better, and good management is usually synonymous with good budgeting.

The agency estimates, after a careful scrutiny by the agency head and his top staff, are usually submitted to the Bureau of the Budget in September. At this point, I would like to tell you how we are organized in the Bureau to handle the job of budgeting. We have five operating divisions--Military, International, Commerce-Finance, Labor-Welfare, and Resources-Civil Works. Each of these divisions is responsible for reviewing the government programs in its functional area. Each division is staffed with budget examiners, administrative analysts, and program analysts, so that the budget estimates submitted by the agencies receive a well-rounded review--from the standpoint of program requirements, from the standpoint of efficiency of operation, and from the standpoint of the relationship of the program to other Government programs and the Budget as a whole. Working closely with the five operating divisions on problems of a government-wide nature are our four offices--Budget Review, Legislative Reference, Management and Organization, and Statistical Standards. These offices provide advice to the Director and guidance to the divisions on government-wide problems in such fields as fiscal and budgetary policy, legislative review and clearance, management improvement, and statistical coordination.

Each agency estimate, after it arrives in the Bureau, is sent to the appropriate operating division. There it is analyzed by the staff of the division, and discussed with agency officials at an informal hearing. Then the division makes its recommendations, and presents these to what is known as the Director's Review, a panel made up of the Director, the Assistant Director, and the assistant directors in charge of the four offices. All the major questions of policy, all the major recommendations by the division are reviewed here. You can see how important this is from the standpoint of achieving consistency of policy and an over-all review of government programs in relationship to one another and to the Budget as a whole. This review is the culmination of the Bureau's year-long work on the Budget.

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The Director's review process covers a period of about six weeks, generally from the middle of October to the end of November. While it is going on, the Director and the Assistant Director are seeing the President several times a week, briefing him on the Budget outlook and getting decisions on the major program issues. As soon as the President has made his decisions, the Director notifies each agency by letter of the amounts which have been allowed. Occassionally an agency appeals to the Director or the President for an upward revision. Actually, there have been very few appeals.

The final step in the process is the preparation of the Budget Document and the Budget Message of the President. We are now in that phase of our work on the 1954 Budget, which the President will transmit to the Congress in January. Here again our work is given a final review by the President, which emphasizes again the point that the Budget represents the President's best judgment as to what the Government ought to do in any fiscal year to meet the needs of the Nation.

After the Budget is transmitted to Congress, it receives its final review, first by the appropriation committees and then by both Houses of Congress. When they have completed their action on the President's recommendations, the Budget becomes the official work plan of the Federal Government. At this point we in the Bureau can't sit back and relax until the next Budget season rolls around, because the job of administering the Budget is just as important as the job of preparing it--if not more important. Our principal tools in administering the Budget are apportionments and reserves. Congress generally appropriates money on an annual basis. It is the responsibility of the Budget Bureau, at the beginning of each fiscal year, to apportion the available amounts, usually for each of the quarters of the fiscal year. Apportionments, as you can readily see, are essential to orderly Budget execution because they provide a means of planning the utilization of funds over a given period. In some cases--for example when the Congress passes legislation requiring the expenditure of funds without making any appropriation--it becomes necessary to ask Congress for a supplemental appropriation. Estimates for supplementals receive careful examination in the Bureau. On the other hand, when it becomes apparent that an agency can operate satisfactorily during the year with less money than has been appropriated, it is the Bureau's responsibility to withhold the funds not needed. The Bureau does this by establishing reserves, either to achieve savings or to provide for unforeseen contingencies.

Apportionments and reserves are not the only tools we use in Budget execution. Also important, of course, is the year-round job of program review, the continuing scrutiny of legislative proposals made by the agencies, and the constant effort to improve the management of the Government's operations. These jobs have taken on added significance in the present emergency.

Relationship of the Budget to the National Economy

Forty years ago, when government expenditures amounted to less than 700 million dollars, or about 2.5 percent of the national income, the Federal Budget was not a very important factor in our national economy. Today, however, when Federal spending amounts to nearly 80 billion dollars, or about one-quarter of the national income, the Budget is one of the most important determinants of the level of economic activity. By the very act of collecting and spending tens of billions of dollars, the Government now plays a significant role--whether it wants to or not--in determining the level of prices, employment, and income. Let me illustrate what I mean. Federal expenditures, taken by themselves, exert an expansionary influence on the economy because they add directly to the demand for goods and services and because they add to the money incomes of individuals and business firms. Federal taxes, on the other hand, exert a contractionary influence on the economy because they reduce the spendable incomes of individuals and business firms and thereby reduce private demand for goods and services. You can see, therefore, that when the Government collects more than it spends, the resulting surplus is deflationary, because it represents a net subtraction from private incomes. And when the Government spends more than it collects, the resulting deficit is inflationary, because it represents a net addition to private incomes.

During the six fiscal years since the end of World War II--1947 through 1952--the Government has had a new Budget surplus of 3.7 billion dollars. Yet during the same period, consumer prices rose 34 percent. This seems, at first glance, to contradict what I said a moment ago about Government surpluses being deflationary. But under closer examination it doesn't, because in order to understand the postwar increase in the level of prices we have to go back to the war years 1942 through 1946, when the Government had Budget deficits totaling more than 200 billion dollars. This tremendous addition to private incomes did not begin to have its full effect on prices immediately, because wartime rationing and price control exercised a restraining influence. But when these controls were lifted, prices rose sharply. This illustrates a point I want to make about our present budgetary situation. After a budget surplus of 3.5 billion dollars in the fiscal year 1951, the Government had a deficit of 4 billion dollars last year, and a deficit of about 10 billion dollars has been estimated for this fiscal year. The outlook for 1954 is for another substantial deficit. The implications of this situation are clear. The Budget is exercising an inflationary influence on the economy, and will continue to do so through the fiscal year 1954.

Problems of Budgeting in a Defense Emergency

Faced with this kind of a situation, there are three obvious steps which the Government could take to bring the Budget back into

balance. The first is to increase taxes, the second is to reduce expenditures, and the third is a combination of these two. Let us look first at the prospect of a tax increase.

When the current defense program got under way, the President urged Congress to pass tax legislation which would put the defense program on a pay-as-we-go basis. The Congress responded promptly by passing the Revenue Act of 1950, which increased the income tax rates on individuals, and the Excess Profits Tax Act of 1950 which raised taxes for some corporations. These tax measures, although helpful, did not entirely close the gap between expenditures and receipts, and the President in 1951 proposed further tax legislation which would have raised an additional 10 billion dollars. The Congress enacted only about half the additional amount the President recommended. In his 1953 Budget Message, the President proposed that the Congress, by closing loopholes in existing tax laws and by making some increases in tax rates, raise at least the additional revenue by which the 1951 legislation fell short of his recommendation. The Congress took no action on this proposal.

In the fiscal year 1952, which ended 30 June 1952, Budget receipts totaled 62 billion dollars, higher than any year in our history, including the World War II years. Yet we had a Budget deficit of 4 billion dollars. In the fiscal year 1953, receipts are estimated at nearly 69 billion dollars, an increase of more than 10 percent over 1952. Yet a deficit of 10 billion dollars has been estimated. Many of the tax rate increases in the legislation approved since Korea will expire next year, and there will be strong pressure on the Congress not to renew them. Thus, with taxes already at an all-time high and strong sentiment for a reduction being expressed, it hardly seems likely that further tax increases will be enacted in the immediate future.

Let us now turn to the problem of reducing Federal expenditures. At first glance, this would not seem to be a difficult problem, in view of the fact that the Government is now spending about 80 billion dollars a year. But we in the Budget Bureau know from long experience that it is a difficult problem, and that there are no pat answers, no magic formulas, no quick and easy solutions.

Federal expenditures cannot be viewed within the context of a single fiscal year. Expenditures for many programs have a basic and continuing momentum. We can accelerate or decelerate Federal spending, but we cannot turn it on and off like water in the kitchen faucet. Let me illustrate what I mean. In the summer of 1950, shortly after the attack on Korea, immediate steps were taken to slow up certain programs which used materials that were needed for defense production, such as public works, hospital construction, and rural electrification. Yet the impact of these actions on Budget expenditures was not fully felt

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until the current fiscal year--two years later. The reason for this is that the bills for goods and services which had been ordered before Korea had to be paid after Korea--when the goods were delivered. At the same time that steps were taken to slow up certain government programs, other steps were taken to accelerate our major national security programs.

The effects of these actions have not yet been fully reflected in Budget expenditures. Since the attack on Korea, for example, the Congress has authorized a total of about 195 billion dollars for our security programs. However, only about 125 billion dollars of this amount will have been spent by the end of this fiscal year. In other words, a large part of the impact of these authorizations on expenditures has not yet been felt. This again is due to the time lag between authorizations and expenditures. For certain items of military equipment, such as tanks and planes, two years or more may elapse between the time the Congress authorizes their purchase and the time when they are finally produced, delivered, and completely paid for. You gentlemen are faced with the same situation, although in much smaller dimensions, when you order a new uniform or a new automobile. Once you have signed the purchase contract, you are committed to pay for the item when it is delivered. You could, of course, cancel the contract, but then your tailor or your automobile dealer could sue you for damages. The Government also would face damage suits if it canceled its contracts and, in any event, would be required to pay cancellation costs.

Bearing in mind that Federal spending in any one year cannot be controlled at will, let us take a look at the Budget to see where the best opportunities for reductions lie.

More than 58 billion dollars, or about 74 percent of the 1953 Budget, will be for major national security programs--military services, international security and foreign relations, atomic energy, maritime activities, defense production and economic stabilization, and civil defense. The remaining 21 billion dollars, or 26 percent of the total Budget, is for all other activities of the Government. Since this is the so-called "nondefense" area and seems to offer promising prospects for easy reductions, let us examine it first. More than 70 percent of the 21 billion dollars will be for relatively fixed and continuing charges over which the degree of budgetary control is extremely minor, and where the amounts included in the Budget are not a matter of budgeting in its generally accepted sense, but rather of estimating what the costs will be. Interest on the public debt, for example, will amount to more than 6 billion dollars. The Congress does not even take annual action on the amount of this appropriation. Instead, through permanent legislation, it has authorized the spending of whatever amount is necessary to meet the interest charge. Another kind of fixed commitment in the "nondefense" segment of the Budget is illustrated by the

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veterans programs, which will cost about 4.5 billion dollars; grants to the states for public assistance, which will amount to about 1.3 billion dollars; and agricultural price supports, which will cost one-half a billion dollars. In these programs, the level of expenditures depends not on administrative determination, but on objective facts such as the number of veterans who apply for educational and other benefits, the number of aged or blind or disabled people who qualify for public assistance, and the amount of wheat, cotton, and corn offered by farmers to the Commodity Credit Corporation. As long as the basic legislation authorizing these programs remains on the statute books, the Government is legally committed to carry them out, and neither the executive branch nor the legislative branch can exercise any significant control over the amounts that are spent on them in any one fiscal year. The executive branch merely estimates the amounts that will be necessary to meet the commitments, and the legislative branch either accepts or modifies these estimates. If the Congress reduces the estimates below the level necessary to pay the costs, supplemental appropriations are necessary to make up the deficiency.

After these fixed commitments are met, there remains in the "nondefense" area of the Budget about 6 billion dollars for all other activities of the Government. These include many programs which contribute directly to national security--such as the internal security program of the FBI, the port security program of the Coast Guard, and the programs for supplying defense industries with electric power--and many programs which are essential to the effective functioning of our Government and our economy, such as those of the Census Bureau, the Civil Aeronautics Board, the Bureau of Internal Revenue, the Federal Communications Commission, and the Federal Bureau of Prisons. Many of these so-called "nondefense" programs have already been cut severely since Korea. Any additional reductions of a size sufficient to materially reduce the deficit would seriously impair the ability of the Government to meet the essential civilian needs of the Nation.

The greatest opportunity for achieving really significant reductions in Federal expenditures lies in the so-called "defense" part of the Budget, which, as I mentioned earlier, accounts for about 74 percent of total Federal expenditures. In this area, small percentage cuts are more important dollarwise than the elimination of entire programs in the so-called "nondefense" area. For example, if it were possible to reduce major national security expenditures by 10 percent, the amount saved would be greater than the combined total of all government expenditures for agriculture, labor, education, general research, social security, welfare, and health.

In the defense area, as in the other areas of the Budget which we have already discussed, large reductions are not easy to make. To begin

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with, a large portion of the estimated expenditures for defense programs in this fiscal year will be to pay for goods ordered during the past two years but not yet delivered. The second difficulty, of course, is that we do not know when or where aggression may strike, and in cutting our defense expenditures we must be careful not to cut bone and sinew along with the fat.

These difficulties, however, should not blind us to the fact that more efficient management can reduce the cost of defense without impairing our security. Opportunities for achieving economy exist at every level of the military establishment. They exist not only in the budgetary process, but also in day-to-day operations. They involve such things as a careful screening and rescreening of military requirements for manpower and materials. They involve a constant search for ways of doing the same job with fewer people and less expensive equipment. They involve a continuing appraisal of procurement methods, the reduction of inventories to realistic levels, the phasing out of the production of easy-to-get common supply items, the elimination of unnecessary travel, better cross servicing of logistic support, and the postponement of construction and rehabilitation of facilities and public works which are not absolutely essential to the defense effort until after the current build-up is completed.

The tables of personnel and equipment allowances offer a striking example of the opportunities for achieving economy. These tables, as you know, form the basis for the initial estimates of manpower and materials requirements. If the tables for a given type of unit provide for an excess of men or equipment over the minimum needed to accomplish the unit's mission, this excess is multiplied by the total number of such units in the service. When built into the total military budget, such excesses could involve tremendous sums of money in terms of pay, clothing, subsistence, supplies, weapons, ammunition, and equipment. The tables of allowances for all three services need to be constantly reviewed and modified in the light of technological change and continuing improvements in combat techniques. It is in areas such as this where cost-consciousness pays big dividends. It is also in areas such as this where you gentlemen, in making decisions as to the quantities of personnel and equipment in the allowance lists, can make a great contribution toward economy in military budgeting.

I do not mean to imply that the military services are not interested in economy. What I am saying is that the same stringent policies which apply to the so-called "nondefense" programs in the Budget also should apply to the military program. This means, for example, that when funds for many worthwhile civilian projects are not being allowed, the military services can hardly justify a request for funds to operate an overseas staging area for cats, dogs, and other pets. It also means that the need for economy is too great to warrant

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a request for funds to construct a parking lot beside a commissary that was established because the commander felt that parking facilities at the local chain store were inadequate. In an emergency such as this, all nonessentials must be eliminated from the Budget, no matter where they occur.

The achievement of economy in Government is one of the greatest challenges facing us today, and the magnitude of the challenge grows with every increase in the size of the Budget. In the present world crisis, it is not enough that this Nation build a large military establishment. We must also have a strong, healthy economy, capable of supporting our military forces for a long time to come. This means that we must steer a steady course between the Scylla of economic weakness and the Charybdis of military weakness, avoiding the dangers of both and striving constantly for a budget that will provide the maximum of security at the minimum of cost.

This is a task which requires continuous, intensive, and unremitting scrutiny of everything that the Government is doing and everything the Government proposes to do, with the aim of eliminating what is non-essential and doing what is essential in the most efficient manner. It is a task in which the Budget Bureau needs the help of people like you, because it is only by the cooperative efforts of everyone in the Government that we can succeed.

QUESTION: Sir, would you care to comment on the proposal that the legislative branch have its own budget bureau? Do you feel there is any particular necessity for an organization to guide the Congressmen in their review of the estimates?

MR. LAWTON: I believe that it would be beneficial for them to have more help, more information, but the question of a budget bureau which would serve both branches has a lot of problems. I happen to have served on a joint congressional committee as consultant a number of years back and I know that in the first part we presented a lot of testimony from a lot of witnesses, and did quite a bit of work, but the minute the initial presentation was over both bodies immediately departed to their respective sides of the Capitol and went their own sweet ways.

The question of getting any one group that can serve them both is a rather difficult operation, particularly it gets difficult when, as sometimes has happened, you have different parties in control between the two Houses. I do believe that additional help and additional information would save them from making a number of the mistakes that they have made before, but I think that the problem of a joint staff is always a ticklish one in the legislative branch.

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As a matter of fact, I think it may not be realized, but the congressional committees now have a staff in the budget field that costs better than 1.5 million dollars a year. It costs at least as much as the Budget Bureau itself is spending on the purely budgetary operation I mean, eliminating such things as statistical coordination and legislative review which is not the function of the appropriations committees. But they spend just about as much as we do and have about the same staff, including investigative groups. If they can solve the problem of joint use, I would say yes, a combined staff would be helpful to them, but as I have seen it over a good many years, there have been only two or three joint staffs that have actually worked. With the others, they have each in turn built up a separate staff to complement the joint staff for the things they themselves want. Their problem is a difference in viewpoint, quite frequently, as to what they want, and I would hate to be the manager of a joint staff.

QUESTION: To what extent are the decisions of the National Security Council (NSC) furnished to the Bureau of the Budget and is its advice sought and given on decisions which generate from decisions made by the NSC?

MR. LAWTON: Answering those in order, the decisions are made known through a regular process of furnishing the Council papers to us. I get all the papers that are prepared and all documents that are presented to the National Security Council. We have a member of our staff designated to sit with the senior staff of the NSC. I myself attend a number of meetings of the Security Council when it affects a problem which has substantial budgetary implications.

Starting about two years ago--I think it was--two budget years ago, the staff of the Security Council began looking at the total budget picture, including the functions and the structure of the military services. It also went into a number of other things.

If you are familiar with the Security Council papers, you know they have discussed the various programs that are implementing the present effort. They have gotten into even such things as the information programs, the Voice of America, civil defense, atomic energy, and items of that sort.

At a couple of Security Council meetings the President has indicated that he considered certain of the figures that were in Security Council documents as advisory, but he has reserved judgment at the meeting on the budgetary implications, feeling that he would make those decisions on the rate at which he would implement certain of the budgetary pronouncements and plans rather than having the Council make them for him.

There is a very close relationship between the Bureau and the NSC. As a matter of fact, the Assistant Director and myself meet about once

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a week with the Executive Secretary of the NSC and his assistant to discuss common problems. They are bringing us up to date on what they have and we are letting them know what our situation is. There has been rather close liaison.

Now we have not fully implemented some of the items in some of the Security Council papers. I might add that a number of them have been drastically modified over the past three years.

QUESTION: Would you care to comment on what effect, if any, on the present budget the observers of the President elect would have?

MR. LAWTON: None. Mr. Dodge, who is General Eisenhower's observer in the Bureau of the Budget, announced to the press the day he arrived that he was there for the purpose of getting information as to what was going into the Budget; that he had no intention whatsoever of participating in any decision making; that--as he put it--his concurrence or nonconcurrence was not to be taken as implying anything; that his silence didn't suggest that he was concurring; that any statement he made did not indicate either concurrence or nonconcurrence. He made it just as plain as possible that he was there to gather information and not to participate in decisions.

That was completely in line with the President's view since he has the responsibility for submitting that Budget. Mr. Dodge sat in the Director's Review Board meetings, heard many of our staff presentations, and was furnished all of the information currently. He asked questions, but those questions have been for the purpose of eliciting information for enabling him to make whatever recommendations he may care to make to the President elect. But as to actual participation, no.

QUESTION: My question is one of coordination with the Joint Chiefs of Staff and the planning staff of the three military services. It is quite possible that the elements of the Bureau of the Budget that are concerned with those problems have the capability of withholding appropriations from any program that they feel is not warranted. As you have indicated in your talk, that would imply that they are capable of emasculating any program of the departments if in the opinion of the reviewers that program is not justified. Accordingly it is capable of emasculating war plans which the Chiefs of Staff are considering. Is there coordination with the review elements of the Bureau on these plans to see that in any such withholding action they do not seriously affect such plans or planning?

MR. LAWTON: Well, I think in the first place you overstate a little bit the power of the Bureau. The Bureau has the right to make recommendations to the President. It has not the right to make decisions itself. Those recommendations to the President, if they affect the military

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services--in this case--adversely, if they severely impinge upon any execution of plans, certainly would be challenged, and have been, are being, I might say.

In the past two or three years we have had discussions at the White House with respect to military budgets, at which were present the Chiefs of Staff, the three service Secretaries, the Secretary, Deputy Secretary, Assistant Secretary, and Comptroller in the Secretary of Defense's Office. Questions of policy--and that is the type of thing you are talking about--have been thoroughly aired and every one of them has had an opportunity to say directly to the President what his viewpoint was.

In the current case, we have not attempted in any way to consider the war plans in the sense that we will determine whether they are right or whether they are wrong. We are operating on the basis of estimates prepared and submitted by the Secretary of Defense as he has heard the service estimates, with certain items pretty well predetermined in advance--I mean strength and structure.

We are not challenging the number of combat ships in the Navy; we are not challenging a 143-wing Air Force; we are not challenging 20 divisions for the Army. None of those things are part of the discussion. The discussion is: What does it take in 1954 to implement those decisions?

There are occasionally certain items that may come up where we are accused of making military decisions. As a matter of fact, I have been told all sorts of things under various emotional stresses--I have been ruining various programs; I have been taking on myself the responsibility for the blood of a lot of people. But I think after the shouting is over on a number of those and you get down to cases, they agree with what we are deciding.

For example, one item, a guided missile project was involved in an appeal session the other day. We took the position that the decision as to whether production would be undertaken would not be determined until a year from January; as a matter of fact financing was ample to take care of it up to that time and continue to design if necessary. Production money was not needed until the next budget. There was an argument about it at first. Yesterday it was agreed that this was the fact, so we are approaching the problem only on the basis of what is needed to finance the project in this budget.

The one thing that perhaps is the major question is one in which the Secretary of Defense actually has made the decision and which we have gone along with. That is, the determination that in the military budget war reserves--war goods on the shelf--are not to be built up to

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any greater extent than they are now built in the program, but rather we are to rely on a mobilization base in being. That decision we have concurred in and we have attempted to implement it in the Budget. Where we saw what appeared to us to be deviations from it, we have challenged the items.

QUESTION: Sir, would you care to comment on your batting average on the Budget preview and the actual appropriation by the Congress since the start of Korea, and would you feel that your preview would be adequate for feasibility testing by the services prior to the actual receipt of this budget guidance?

MR. LAWTON: Well, I think if you mean by preview the first operation in the budget process that we do, we have not applied the ceiling operation to the military. We make a general guess of what the expenditure rate would be rather than the obligational rate. We have projected an obligational rate, but it hasn't been a controlling one. We have been too high, very much too high on the expenditure projections--not only we, but the Department as well, because in most cases we were lower than the Department.

I don't know whether you remember, but last year there was provision for a ceiling that had been advanced by Mr. Coudert, a 46 billion dollar ceiling on military expenditures. I went up with the Secretary and his staff and helped cry. I didn't cry quite as hard--2 billion dollars worth--as he did. The Department claimed "It can't be less than 52." I said, "50 is a good figure. I hope it can be higher because it means we are actually progressing in the defense picture. We are getting deliveries of the goods we want, when we want them." Actually on the latest look at that, all three of us were high--Mr. Coudert, the Budget Bureau, and the Secretary of Defense. Mr. Coudert was closest because he was the lowest.

But it has been a question of an overestimate of deliveries, primarily in the hard goods field. On the personnel side and on the soft goods, the things that make up our maintenance operations, subsistence, things of that sort, we were reasonably close, but on the production of hard goods--planes, electronics, other things--we have slipped most.

We are financed now two years ahead. We have financed deliveries for 1956 out of the 1953 funds. Last year, for example, in the Air Force alone, we put in 3.5 billion dollars in the budget for additional lead time, which indicated a difference in judgment as to when you could expect deliveries of certain goods. Generally, Congress has been nearer right than we have.

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QUESTION: In your study and analysis of the programs put in by the different agencies of the Government, is it also not your realm of responsibility to aid and tell a man he has not put in sufficient money to efficiently run his department?

MR. LAWTON: We have done that in some cases. They have been the rarity because usually the requests have been in our opinion at least ample. I am not talking about the military. I am talking about some other programs. But let me give you three or four examples. They are in the public works field.

A year ago we had an estimate from the Corps of Engineers. The CE had several large expenditures for certain projects. One item was a dam at Old Hickory down in Tennessee. We changed that figure upward by about a little over 200 percent for the reason that we were fitting into the TVA pattern a load factor that it would have had three years from now, partly because of the expansion of the atomic energy programs which the Corps of Engineers had not known about at the time. But nevertheless we raised that from 3 to 8 million dollars.

In the case of one or two other programs in the Pacific Northwest, we have done the same thing. We attempted to change the date of completion, at least we accelerated the program, in order to get completion of the power generation at the date it would fit into the plans we were making for additional aluminum plants, and so on. In some cases we felt an agency had understated the functions it had and allowed additional funds.

QUESTION: The Bureau of the Budget prepares and manages the budget for the executive branch and all the independent agencies that are attached to it, but in addition to that there is a minor element of expense surrounding, say, the Federal judiciary, the General Accounting Office, the Government Printing Office, and other parts of the Government which are not part of the executive branch. How are those coordinated, and does your office have a hand in the preparation of such budgets and their management?

MR. LAWTON: They divide into different categories. We get the General Accounting Office budget and discuss it. Since it is carried in the independent office chapter of the Budget, we have the opportunity to make changes in that. Usually, however, because of the general intent of the Congress to consider it as a legislative body, those changes have usually been by agreement. We also have made suggestions.

In the case of other legislative items carried in the legislative appropriation bill, we are required under the Budget and Accounting Act to present those exactly as they are submitted to us in amount. We have no discretion. We do discuss matters of form with them, the form of presentation, but that is the limit.

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In the case of the Supreme Court, the same thing applies. In the rest of the judiciary, we have the right to comment. We have to submit the estimates as they send them to us, but we have the right to comment and make recommendations. On a few occasions we have made comment on certain phases of the judiciary budget and made recommendations for the elimination of them. It is up to the congressional committees and to the Congress to either accept or reject those recommendations. We do not change the figures.

QUESTION: My question refers to your management function. To what extent and where and how does the BOB's influence extend down into the substructure of the executive branch? For example, take San Francisco where the services have the Sixth Army and the Fourth Air Force, to what extent do your field offices out there in San Francisco get into the management supervision of those headquarters?

MR. LAWTON: Well, actual management work, analyses of the problems or what you might call efficiency studies, anything of that sort, have been extremely limited in the last five or six years. We used to do a great deal more of them than we do now. But the job that we now do is more an attempt to do a selling job to the agencies of the Government, in both Washington and the field, as to the necessity for improving management. If there are some particular problems that run across the board and that we run into, we will discuss them with the various groups involved and try to arrive at some common basis.

We have done it in western Europe with General Services where their operations get involved in fringe prices and sometimes with space. But we adopted several years ago the theory that we would attempt to strengthen management organizations within agencies and rely on that, with some, you might say, needling from us; to rely on the internal operations of the agencies, internal management organization of the agencies to do the job that needed to be done. In the first place, we couldn't spread ourselves around to do much of the detailed job ourselves, to make specific studies and specific recommendations.

We have about four people in each of those field offices, other than secretaries, and their job lately has been to operate on specific problems from here, getting the answer we want back here, rather than initiating work themselves. All we try to be, particularly in the field, is a sort of evangelistic team--if you want to call it that--rather than an operating group. There are a few cases where we have raised questions and made studies of the utilization of personnel in special programs, but there is no sustained, continuing, definite program.

Each of those offices have their plans laid out for a year in advance. Most of their work comes from here. In the last two years

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we have had to devote most of our management organization staff to organizational proposals because they were in the forefront ever since the Hoover Commission made its report. I would say that we have devoted at least 75 percent of our effort in that area to organizational management proposals. We have worked on the joint accounting project with the General Accounting Office and the Treasury Department, but we haven't devoted very much to other forms of management, except, as I say, to try to inspire and instill the idea in the minds of the agency people that they ought to beef up their management operations.

QUESTION: Mr. Lawton, my question pertains to apportionment. I don't question the necessity for some sort of apportionment, but I do raise the question with respect to reimbursements. I wonder if you would comment on the necessity for apportioning reimbursements from MSA and with respect to the liquid assets of the revolving stock funds?

MR. LAWTON: Mutual Security Administration (MSA) is a sore subject right at the moment. We have been trying to find out what happened to the reimbursements. For the past three weeks we have been having a little difficulty there.

The problem of reimbursements I think is a question of apportionment control. Reimbursement relates to the type of operation. I think if you take the sea transport service you have a completely different problem from what you have in some of the MSA. For example, an industrial type of management fund operates the sea transport service. This fund is reimbursed from the various military services for the cost of services rendered to them.

In the case of MSA, they might expect a particular model in some cases out of alternate choices of goods coming off the production line. In some cases it goes out of stock and has been classed as more or less obsolete. This poses the question of just how much augmentation there is to a specific program. You don't replace the goods with the same model. In a great many cases of MSA reimbursements, you buy something new. It may not even be the same type of item, and in that case it represents in a great many instances an addition to the production funds of the Army. My feeling is that in areas of that sort, there is as much necessity for knowing what is being done and the rate at which it is being done with respect to the obligations or commitment of those types of replacing accounts or management funds, whatever you want to call them, as there is with respect to the initial appropriation. The problem, as we see it, is that these are contributors to a total procurement program.

If, on the other hand, there is simply and clearly an account where you have ordered goods and charged them to one appropriation or

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fund, with a definite idea of how you are going to spread them and how you are going to deliver them to other military appropriations, then there is no real necessity for apportioning that kind of revolving fund. In other words, if you make a decision that you are going to buy 1,000 tanks, 500 are going to be for MDAP and 500 for the Army, you buy them all from the appropriation and you have to replace them by reimbursement. We have already apportioned the obligation so there is no need to apportion the reimbursement.

But, when you use the funds for new procurement, then we think there is the same necessity for apportioning that as there is for apportioning initial procurement funds.

We have had quite a problem recently on the MSA funds, particularly with an attempt to find out exactly where we stand with respect to them. That has been one of the arguments in the current budget sessions as to the amount we can take credit for in procurement dollars by reason of MSA reimbursements. I understand that they have recently started a drive to examine into that feature of procurement appropriations.

Now the apportionment business is not all on a time-period basis. I don't know whether I have left that impression, but we apportion on a number of different bases. On military public works, apportionments in most cases are not by time periods but are base by base, simply because the initial presentation was, admittedly on the part of the Department and ourselves and reluctantly on the part of Congress, recognized as not being completely firm. A lot had to be done and a lot of decisions had to be made subsequent to appropriation.

Any of you who have read the Public Works Subcommittee of the House hearings on the subject of military public works realize that Congress has been very unhappy on the subject of public works in the last year or two. They have objected to the Bureau's exercising what they say is the function of the Congress--in other words, going up for an appropriation which is not too definite in justification and then saying, "Don't mind that; you appropriate the money; the Department of Defense and ourselves will handle it after it is appropriated."

COMMANDER CRIST: Mr. Lawton, on behalf of the Commandant, the faculty and the student body, thank you very much for a very interesting and informative lecture and discussion period. We appreciate your taking time out from a busy day to visit with us in the Industrial College.

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