

REVIEW OF THE DEFENSE BUDGET

3 October 1955

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Captain Charles Adair, USN, was born in Tyler, Texas, 3 November 1902. He graduated from the U. S. Naval Academy in 1926. Between 1926 and 1933 he served on battleships and destroyers. In 1933-35 he attended Post Graduate School, Annapolis, Md., taking a course in Applied Communications. From 1935 to World War II he served on various destroyers, as a company officer at the Naval Academy, and on the USS HOUSTON. After the war started he escaped from Corregidor on the USS LANIKAI to the Dutch East Indies and Australia. During the remainder of the war he served on the Staff, Commander Amphibious Forces, 7th Fleet, being involved in about 15 amphibious operations from Lee to Linguyen Gulf. Since the war Captain Adair has had a tour in BuPers, commanded an attack transport, and served on the Staff of CINCPacific Fleet. In 1951 he came to his present assignment, Assistant Director of Budget and Reports, Office of Navy Comptroller. This is his first lecture at the Industrial College of the Armed Forces.

REVIEW OF THE DEFENSE BUDGET

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ADMIRAL DEUTERMANN: Good morning, gentlemen.

I think we are safe in saying that nothing in the Department of Defense is reviewed more than the budget. We are to have three talks over here, one of them today, "Review of the Defense Budget;" the next one will be "Management of the Defense Budget," which will be given by the Comptroller of the Defense Department; and the last one will be a discussion of the Federal Budget as a whole by the Director of the Bureau of the Budget.

Our speaker today is one of those indispensables--I really mean that. He is one of those individuals who has gone on year after year. Since 1951 he has been the assistant director of the Office of Budget and Reports in the Navy Department. He has seen directors come and go. He is the sustaining flywheel. His chief mission in his day-to-day work is to influence people without making friends. How he retains his health and equanimity, I don't know. Those of you in the Navy who have been at the Pentagon in the last four years have probably knocked at his door more than once.

It gives me great pleasure this morning to introduce Captain Charles Adair.

CAPTAIN ADAIR: After that very glowing introduction it will be sort of hard to live up to it, but I want you all to know that I certainly feel far from indispensable. They can always find somebody to do your job. But it is a pleasure to be here and to talk to you about the review of the Department of Defense budget.

As most of you know, the Department of Defense budget comes in for many man-hours of review. It is probably one of the most thoroughly reviewed budgets in the Government today. Many of you who are familiar with the budget and those of you who may not be too familiar with it may think these reviews are unnecessary, but regardless of that, it is with us. It is going to be with us for some time.

This reminds me of the recent college graduate in his first job. His employer had reviewed his budget and cut the young man's pay.

The pay was so low that after renting and partially furnishing his new apartment he was unable to carry out the rest of his program and could not provide the necessary etchings to hang on his walls. Instead, as a result of his reduced budget, he was forced to invite his girl friends to come up and see the handwriting on the wall.

Budget review is inevitable, I am afraid, and will be with us for a long time. As a matter of fact, the military budget review goes back many years. In 1341, Henry IV came up to Parliament to ask for some money to carry out some of his campaigns. In granting the money requested by the King, Parliament attached a proviso that he would be responsible for the accomplishments he would carry out and that commissioners should be appointed to make a true examination of the accounts. The extreme confidence of Henry IV in his ability to get away with it has since been the envy of all military leaders. He immediately took the strong position that "Kings do not render accounts."

As so often happens in the first matching of wits, Parliament backed down temporarily and did not make an audit. The next round between Parliament and the new King, Henry V, however, resulted in Parliament's failure to provide him with money without their controls. As a result, he borrowed the necessary money for his campaigns by obtaining a private loan from Sir Richard Whittington, who is the hero of the nursery rhyme "Whittington and the Cat." Sir Richard had not grown wealthy by failing to cover necessary risks on loans. He took a lien on customs dues reserved for the King to insure repayment of his loan in full.

Private loans nowadays, of course, have to be well accounted for. For this and other reasons, a review of the budget has become accepted practice. All reviews of the budget of a department are somewhat similar. The congressional review is, of course, the final one and it is that review which ultimately determines the dollars available to carry out the programs which must be justified by the Department.

At almost every stage of budget review, the first question that is asked is in substance, "What did you do with that dollar I gave you last year?" In other words, the initial question invariably concerns how much money was obligated last year in the appropriation or activity under discussion.

At this point, it might be well to define the terms "obligating authority," "expenditures," "commitments," and so forth, for you. Some of you may not be too familiar with them. If you are not, you are in good company because there are many people in top level areas today who are equally confused as to their meaning.

"Obligating authority" is the appropriation which Congress gives you. It is the same thing as "credit at the store." Congress gives it and it hasn't yet been raised by taxes. When you start to the store, you have "committed" the funds for the amount of material you plan to order and no one else can start to another store with that amount. When you order at the store, you have "obligated" the funds and that portion becomes a part of your "obligations." When the store delivers the material, you pay for it and at that time it becomes an "expenditure." It is just as simple as that. Try to keep those terms squared away and it will be helpful.

You may be interested to know that Congress first gave the Navy obligating authority in 1794 in the amount of \$769,000. During that year \$60,000 was spent. In 1795, because of the large carryover of unobligated funds, no additional appropriations were given, but we spent something over \$400,000. In 1796, there was still a small carryover and only \$5,000 was appropriated. In 1798, the Navy really began to require additional funds and slightly over two million dollars was appropriated and 1.4 million dollars was spent.

Since then, there have been ever-increasing amounts required in the Navy. As a matter of fact, the maximum amount received was back in 1943 when we received 30.9 billion dollars just for the Navy alone. In that year we spent 19.4 billion dollars, or considerably less than was received. In 1945, 28.6 billion dollars was appropriated and 29.4 billion dollars was spent. So you can see how expenditures lag appropriations. That is another point that is a little difficult for many people to take aboard.

Many of you may consider it unnecessary for me to stress these basic facts. In any review of the budget, however, the question of commitments, obligations, and expenditures becomes one of the most important elements of the budget review. Unless you can successfully answer questions in this area, you will jeopardize your entire program.

The purpose of the budget review at the departmental level, the same in each department, is to obtain the necessary funding

requirements of the department to carry out the various programs in accordance with the guide lines which have been issued by the higher authority and the program objectives issued within the department. Program objectives are a little more in detail than the guide lines. The guide lines are issued by the Secretary of Defense and in them he outlines certain force levels, both in personnel forces, aircraft wings, Marine divisions, Army divisions, and it is those programs which you are interested in funding properly in the department review. That is the review that gets the dollars in the right pocket to do the job. You should realize that it is important to get the money in the right places because it is illegal to transfer money between appropriations.

In the next level of review, usually held jointly by the Secretary of Defense and the Bureau of the Budget, the purpose is to insure a conformance to the overall objectives of the Government, particularly within the Department of Defense, to insure that the departments do not receive more funds than are required to carry them out. In the final determinations made later by the Director of the Bureau of the Budget and the President, a government-wide viewpoint is applied. They try to balance the overall governmental requirements against the availability of funds to meet these requirements.

Now to jump back once more to the Department level of the Navy where a detailed review is carried out by the Comptroller of the Navy who is the Assistant Secretary. This review will last usually about six weeks. The budget justifications are received from all bureaus. The bureau chiefs, together with their program managers, are called in and are asked detailed questions as to how they plan to spend the money, the purpose, what they did with the dollars they had before. We attempt to cut dollars to the minimum--I think everybody who has been up there trying to justify a budget will agree on that--and get the dollars in the exact spot where required.

As soon as we complete the review, which, as I say, takes about six weeks, we take the budget before the Budget Advisory Committee, consisting of the various bureau chiefs, the Deputy Chief of Naval Operations and the Chief of Naval Operations. There the Secretary of the Navy is assisted by the other secretaries, and they go over each point of disagreement in the budget one by one. Where agreement is not obtained, they discuss the problem. The Bureau Chief, speaking as the responsible officer for the Bureau, will agree or disagree--often disagrees. Whether or not they get agreement on

the points discussed, a decision is made right then and there as to what will be the final action in regard to those dollars.

After completion of this meeting, the justification books are modified in accordance with the decisions of the Secretary of the Navy and a few days later these books are submitted to the Secretary of Defense. That is the stage we are in right now with the Navy budget. It is due next Monday in the Secretary of Defense's office. Most of the decisions have already been made.

Now after the budget goes to the Secretary of Defense, the review by the Secretary of Defense analysts and the Bureau of the Budget analysts takes place. After they complete their review, the budget goes to the Congress.

As most of you are probably more interested in the procedures of Congressional review, I will go into that in more detail. After the President submits his budget to the Congress, it goes first to the House Appropriations Committee. This committee consists of 50 members who are responsible for review of all appropriations of the United States Government. That committee breaks down into subcommittees, each subcommittee being responsible for a department. Military appropriations are reviewed by a subcommittee of 15 members, and these 15 members break up into further subcommittees of five members each. Each one of those subcommittees takes a department of the Department of Defense and reviews their budget.

Many man-hours are spent by the Committees in review of the budget. This review is one of the most detailed you will find throughout the review levels. Any personnel who go up on the Hill to justify budgets should be the best you could possibly send up there. They should know all about the budget and be able to speak with authority and conviction as to the requirements.

Congress has the final say as to the amount of dollars that will be provided. They have the problem of balancing the budget and of insuring that there are sufficient dollars to carry out all Government programs. They are interested in funding only those programs which are important and which they feel are needed.

It is customary for the senior officer of a bureau or office to be up there on the Hill and carry the budget justifications before the Congressional Committee. A statement should always be prepared

by this officer which will cover the total funds requested and explain, at least on a broad basis, the programs which the department desires to carry out. It should not be longer than six or seven pages, double spaced, so that it may be read in about 15 minutes.

This is one place where it is important to read a statement. It must be accurate and hit, on a broad basis, the programs you intend to carry out. It is far better to come up there with a prepared statement--and it is expected by the Congress--than to go up without a statement and start speaking off the cuff. The minute you do that you wander from the subject and get involved in questions which detract from the effectiveness of your presentation.

A prepared statement is a more orderly presentation. This is particularly important when you get to the Senate. Senate hearings go much more rapidly and if you don't have a statement written out, you may wind up with nothing in the record at all. This could happen when statements are inserted in the record without reading them because of lack of time.

These hearings by the House are conducted in a very detailed manner. They start out with questions in regard to obligations and expenditures on the latest available date and compare the request for funds in the current budget request with funds received for previous years.

You will find that the Congressmen on these committees have been there for many years and they remember what was said the previous year. They spend a good deal of time during the summer traveling around the country, both here and abroad, inspecting projects which they have funded, in order to see first-hand the job that has been done with the dollars which they gave you.

Many times you may consider their questions not too important, but you must remember their purpose in asking these questions is to make plain for the record, for the benefit of those Congressmen who may not be there, why these dollars are required if they are given.

It would be well for all of us to read over the testimony of previous years or maybe two or three years' testimony. It is printed annually, runs about a thousand pages, closely written. If we read it carefully, we will get the type of questions being asked by the particular Congressman and that will be a great help when we are up there testifying.

The same Congressmen will be doing the questioning. They are those with most seniority in respect to time and service. That is a good committee to be on and most Congressmen like to be on it in spite of the tremendous amount of work required on that job.

Witnesses should be able to make positive statements in regard to their programs. Don't be wishy-washy. Congressmen do not expect the Bureau Chief to answer all the detailed questions. They prefer to have the program managers there backing him up by answering questions which they are more familiar with. There is no way to get into hot water quicker than to have someone in authority try to pretend to the congressional committee that he knows all the answers. They know as well as you do that he can't possibly know all the answers.

If they ask you detailed questions, they also know you can't know those. You can say you can supply that for the record. They do not mind having something inserted into the record on information not readily available which they do not expect to be available.

Have personnel there to answer those questions which you are unable to answer. The Congressmen spend long hours in budget review in addition to the time required for their normal work. They do not have time to go back over the record later and familiarize themselves with the inserts in the testimony. You may miss a good opportunity to put across a point if you don't make at least part of the answer you could make at that time.

Don't break in on the testimony. Here's another point. People up there testifying are quite often nervous, and understandably so. They will hear a question being started by a Congressman and they think they know the answer. They think they know what he wants and they have a tendency to break in on him. Don't do that. Remember the Congressman may know that answer better than you do. He wants to get it into the record. He wants it taken down by the recorder. When two or three people are speaking at once, it is impossible to come up with a good record. In answering a question, a witness should take his time in order to make a well considered answer rather than to start his answer too quickly and then have to change it.

Remember you will have a chance to review this record the following day and make minor corrections. This is a privilege and not a right. So treat it as such. Look over the record. Do not make major changes which will change the intent of the answer or perhaps

make the question look changed. Make minor changes in light pencil, not in pen and ink or heavy pencil. You may find later that the committee desires no change at all made in the record. You may insert by stapling on the side of the page the inserts of the testimony that may have been asked for.

Do your review quickly. Get the testimony back within an hour or two if possible. Do not make any changes in anyone else's testimony, particularly a Congressman's. If someone's testimony has something that should be changed, you may invite his attention to it. If a Congressman's, invite the attention of one of the staff members of the committee to it, but whatever you do, don't change his testimony. He would take a very dim view of that and I think you would, too.

Upon completion of these hearings of the five-man subcommittees of the House--and each of the five-man committees completes their hearing on the Army, Navy, and Air Force at about the same time--the committee of 15 holds detailed hearings. They never miss being there. At the end of that review, they forward their action to the House Appropriations Committee. That vote then determines the final report turned out by the committee and voted on by the House. There is usually considerable discussion on the floor of the House, but usually the bill will be voted upon and passed roughly as the committee has recommended.

From there it goes to the Senate, and in the Senate the same general procedure is carried out. In the Senate, however, the committee does not split up into groups. One committee conducts the entire review. The chairman of the Appropriations Committee or the subchairman will be the one who conducts it. There are fewer people in the Senate hearings and very few of the members are in there at one time. You may be lucky if you have as many as five at one time. Sometimes only the chairman is there conducting the review and it is quite a job for him to do it.

At any rate, after he has completed his review and the Senate Appropriations Committee has voted on it, the bill comes up on the floor of the Senate and is voted on. The Senate and House usually differ in certain minor respects. At that point, each appropriation committee chairman appoints conferees who get together and iron out the differences. The bill is then usually passed by the House and Senate as recommended by these conferees.

I have discussed at considerable length some of the reviews, all the way up to the House, but there is one review that you don't hear much about, yet it is a review that probably has more effect on the budget the Department of Defense gets than any other. That is a review which occurs after the Secretary of Defense and Bureau of the Budget review and the Bureau of the Budget has fixed roughly what is required by the Government as a whole.

At this point, somebody has to take a close look at what is required and balance it against what the country is going to have in the way of income for the year. The Secretary of the Treasury, the Director of the Bureau of the Budget, the Secretary of Defense, the National Security Council, and the President have to sit down and try to get a grip on what is required. It is quite a problem.

One of the most useful tools for getting a grip, so-to-speak, on budget requirements in the Department of Defense is by breaking them down into cost categories. This is a breakdown that takes all appropriations and splits them among about seven different categories, such as military personnel, maintenance and operation, major procurement and production, military public works, reserve components, research and development, and establishment-wide activities.

When you break the funds by appropriations down into those categories, you begin to see the functional use of the funds and you can tell better just exactly what is being requested.

It is at this point of review that confusion so often arises in the minds of many people who do not entirely understand the difference between obligating authority and expenditures. At this point the President, the National Security Council and other top level personnel are vitally interested in expenditures for the year in order to determine whether the budget is going to be balanced. In some years they are a little more interested than in others, and 1956 is one of the years in which there will be more interest as to whether we are going to be balanced or not.

A good clear understanding of what expenditures are and what obligating authority is would be useful at this point but they are a little difficult to relate. New obligating authority is going to be spent over many years. If you give a little thought to that subject, you will see why. Expenditures in 1956 are going to be made up of the seven cost categories. We might take a look at this chart of new obligating

authority. I just brought the Navy chart. Don't look at the numbers; this is just to get an idea of the size of the annual obligating authority.

Navy funds went from 4 billion dollars in 1950 to 16.1 billion in 1952. The other services went up correspondingly. The total in 1953 dropped to 12.5 billion dollars. We found out we weren't getting material because of lack of material controls and personnel controls. We were not getting electronics material because the manufacturers were making television sets. After Korea, the requirement dropped down in 1954 to 9.3 billion dollars. For the last three years, 1954, 1955, and 1956, it remained roughly at 9.5 billion dollars for the Navy. Let us take that money and find out where it is going.

This is a chart of the cost category spread I was talking about. You can see that personnel, maintenance and operation, and major procurement take the majority of the dollars in your budget. That is true for all services. The rest of the smaller categories run to about a billion dollars and are comparatively small. Military public works is running about 400 million dollars; reserve components, 250 million; research and development, 400 million; establishment-wide activities, 25 million. Lump all those together and it comes to about a billion dollars. Military personnel, maintenance and operation, and procurement form the major part of this budget. There is nothing more true than that cardinal precept in the cartoon that "People are no damn good." If you want to reduce a budget, you need to cut people. So it is very true that the number of people is the determining factor in your expenditures in any budget.

You have to have military and civilian personnel to operate your shore establishment, and military personnel to operate combat units, maintenance and operation requirements are directly related to the number of personnel. Take the Navy, for example, with three billion dollars for military personnel. Your "M and O" will be approximately eight-tenths of your people, or 2.4 billion dollars. It runs just about at that same amount for the current level of ships, aircraft, and so forth. The same applies to the Army and Air Force. The Air Force will be a little bit higher than eight-tenths, with large aircraft, probably one to one with many operating aircraft using jet fuel. The Army is a little less.

Once you know the number of military personnel you have--they run to about 3,300 to 3,400 dollars apiece--you fix the "M and O" costs. Major procurement then becomes the flywheel of the whole budget.

Major procurement is mainly broken down in the Navy cost category system to aircraft, ships, ammunition, guided missiles and electronics. Ammunition is coming down but missiles are going up. Electronics now require about 100 million dollars. Ammunition was very high during Korea; now it has come down. When you have built up mobilization reserves and are only funding peacetime usage, the requirements are much less. Aircraft and ships is where most of your money is required to maintain modernized units.

Now the Navy has been operating approximately 10,000 aircraft. If you are going to operate at that level, just as sure as anything, you can pick out the dollar requirement. One-fourth of the total aircraft have to be procured every year to replace the obsolete aircraft and those lost from crackups. The average cost of a plane is one million dollars. To operate 10,000 aircraft would mean a replacement of 2,500 planes a year, or 2.1 to 2.5 billion dollars. You can push it down a little bit depending on what you are buying--trainers, and so forth. As you look at the aircraft dollars by years, you see about 1,300 million dollars in 1954, 2 billion dollars in 1955, and 755 million in 1956 and you will ask, "Why didn't we get 2 billion dollars more in 1956?" The reason was that we got 2 to 3 billion dollars a year during the Korean War and we didn't get the aircraft. As a result, it is continuing money we had; a carry-over of funds from aircraft we didn't get delivered.

For 1956, the 755 million dollars for aircraft procurement is far below the normal budget requirement of 2.1 to 2.5 billion dollars. By using prior-year funds together with the new 755 million dollars, the proper number of aircraft could be ordered. The normal budget is short here nearly 1.7 billion dollars. So there is something that will have to give sooner or later in later budgets. It is bad to reduce your budget like that. Once you reduce the base, everyone gets used to looking at those numbers and they don't want to increase it later.

Anyone can take the cost category system and compute budget requirements. By placing the requested funds in these categories and comparing them with the requirements for previous years, balanced with changes and force levels, it is possible to get a better understanding of the budgets as a whole. A study of this "cost category" breakdown quickly shows areas of increase between years and differences between departments and the reasons for changes can be more readily investigated. Many times dollars get in some of these budgets that aren't required in that year. There are various reasons.

Let us take, for example, a few years ago when the Korean War stopped. Suppose we had reduced certain of our budgets drastically by two or three billion dollars that year. We would have immediately had headlines throughout the world that we were cutting back our military strength, and it wouldn't have been well received in Europe and other places. That is one reason for continuing a level of obligating authority in certain areas when you don't need it. During a normal budget year, however, the dollars should accurately fit the requirements. You may say, "What difference does it make?" If you give too much obligating authority, what is the harm if you don't spend it?" There is this harm: With a total amount of obligating authority closely related in most people's minds, politically at least, to expenditures in that year, they are likely to approach an immediate reduction in expenditures by an immediate reduction in obligating authority. If you have a limited total obligating authority in a given year, which is usually the case, and the funds are not accurately placed, someone gets too much and someone else gets too little to carry out the programs he needs to carry out.

Assume you had unlimited obligating authority and you gave everybody what he wanted, there is still another way to control obligations. You can control them by apportionment during the year. The Bureau of the Budget may say, "Leave that out. We just won't give you the money that you had appropriated for it." They will apportion a smaller amount. If you don't have the funds, you can't obligate and you can't spend them.

Getting back to expenditures now, expenditures look very much like obligating authority. Take the Navy, for example. Our expenditures in 1954 were 11.3 billion dollars; expenditures in 1955 were 9.670 billion dollars; in 1956, with new obligating authority of 9.5 billion dollars, our expenditures are estimated at around 9.5 billion dollars. So you see there is room for confusion when looking at new obligating authority in almost the same amount as expenditures. Unless you keep a close watch on yourself, it is easy to get mixed up. Too often, the people doing the cutting will say, "We want to reduce expenditures in 1956; therefore the thing we should do is cut back on obligating authority."

Now 40 to 50 percent of the expenditures in 1956 will be from prior-year money. In other words, they will be for aircraft ordered three or four years ago and for ships and tanks started several years back. New obligating authority and expenditures are directly related but if you are going to get an effective reduction in expenditures in a given fiscal year

much advance planning is required. For example, in order to reduce expenditures for the year 1956, you really should have started thinking about that three or four years ago. If you want the most effective reduction in personnel in 1956, as those of you who work with them know, you should have let the personnel go a year ahead of time. If you want expenditures reduced this fiscal year, ending next July, you should have let the people go in 1955, because when you let them go, you have terminal leave and all those other expenses. They wouldn't really go off the pay roll, if discharged now, because of the back pay owed them, until the last quarter of this fiscal year. The same advance planning is needed if you want to reduce drastically the expenditures in "M and O."

Major procurement is a big area and any reduction of expenditures in major procurement should have been thought of at least two or three years ago. Future expenditures were established as long ago as that. Aircraft from plane contracts are just beginning to be delivered. It takes 18 months for tanks, particularly with the modifications that often have to be made. The ships take a little more time--3-1/2 years for those like the Forrestal that was launched this year. There are still some remaining expenditures on that ship in some areas.

So if you try to reduce expenditures on ships or aircraft now being built, it is too late. You have to anticipate reductions well in advance and make early plans. If you don't, you will cancel a contract on which material has been ordered, people are being employed, and 90 percent of the contract has already been accomplished. All you will do is sell for scrap and pay 99 percent of the charges anyway. You will have reduced your level of readiness and spent your money without helping expenditures. As a matter of fact, the Comptroller General of the United States testified before Congress not so long ago that it is almost an impossibility to run the United States Government on an expenditure basis. One of the reasons for it, one of the biggest reasons is the long lead time on major procurement items.

The various budget reviews which we have, I think, serve a very useful purpose. In spite of whether we like them or not, properly executed reviews throughout our budget review cycle serve at each level of that cycle to bring to bear a good look by reviewing personnel. First, by the bureau in making the budget up, then in the department, then in the review by the Secretary of Defense and the Bureau of the Budget. At each level there is a broader review of the budget brought to bear on it.

Now it is human nature, as anybody who is making a budget knows, to feel very enthusiastic about one's program. If one doesn't he shouldn't be running it. Naturally anyone who is enthusiastic can see many uses that he can make of the money which he is given. He can see ways to branch out and do things which he thinks are important, and they may be important. But at each level, someone who is not so enthusiastic about that particular program but who is responsible for all programs in that area should look at the budget and balance that program against the availability of funds that you will have to carry it out. If a careful review is made at that level, we will actually fund the important programs which have to be funded for the benefit of the country and for national defense; eliminate those of lesser importance, and on the whole come up with a much better government-wide budget.

It is important to us as taxpayers that we get such a review, and it is really this system of checks and balances upon which our Government is based. It is a system in which we have received our money in the past and the one which has produced the strength of the United States today, and I think in the long run it is one which will let us continue to be the strong nation which we are.

CAPTAIN GERWICK: Gentlemen, before we start the questions, a question was raised during the break about the apportionment cycle, and we have asked Captain Adair if he will start the question period by explaining the apportionment cycle.

CAPTAIN ADAIR: Some of you might ask, after going through all the trouble of justifying your budget, which is a pretty sound one, you think, and you have been given obligating authority by Congress, "Why won't they let us have the money?" You say, "We have no sooner completed the review before the Defense Department and the Bureau of the Budget than we have to do it again. We need that money. They have approved it, and now, after the money has been appropriated by Congress and we have been given the obligating authority, we have to go back to the Bureau of the Budget and the Secretary of Defense for a review of the budget all over again before they will let us have a nickel of it." That would be the pessimistic way of looking at it. It is not quite that bad.

The apportionment process is legal. It was set up by Congress. The purpose was to prevent a department from getting all its obligating authority at the beginning of the year and spending it all in about three quarters and then going back to Congress in the fourth quarter and

saying, "I have to fire all my people because I don't have enough money. I know you don't want that to happen so we would like an appropriation to take care of that." That has happened.

It is legal. Congress set up the provision and the Bureau of the Budget has a responsibility for it. Congress stated in the committee report of about three years back which pertains to apportionment that, regardless of the funds that have been given to any executive agency by the Congress for a program, that it is their responsibility in carrying out the program to carry it out for less money than was given if at all possible. Every agent--that might be the Secretary of Defense; it might be the Bureau of the Budget, or any other person on down--that gets money should apportion it in a lower amount if practicable. He might consider that a program could be done for less or something else has come up that requires a certain part of those dollars and this particular program will have to "take it on the chin" in order to provide for the other requirement.

Management might not want to make all funds available at one time. Basically, that is the reason for the apportionment process. It is sound. It gives the people who are operating programs a basis to control them if anything happens, and many things can happen. You may say that a man who justified the dollars and gets a lesser amount in the apportionment process is not being dealt with fairly, but on a broader basis, apportionment is sound if properly executed.

QUESTION: Along that same line, it doesn't seem to me that the withholding from management of major procurement funds, with which your explanation would be valid because of the long lead-time items, is good and that you wouldn't necessarily go in later on and say it would affect personnel programs in the next fiscal year.

CAPTAIN ADAIR: The money was held back in that year because you have proved by slow procurement deliveries that you don't need the money that soon. It may be you are getting items for less; it may be you were too optimistic and production levels have changed. This money could very well be given to you in a later fiscal year. You would be surprised how money tends to disappear and is used for other things than those for which it was originally appropriated if it hangs around loose. Usually, for those reasons it is held back by nonapportionment until a later date as an offset for funding that particular item in the next fiscal year. If you didn't, the person operating the program might have used the money to buy something else which was or was not required and might not be justified.

Of course, you may say that the man running the program knows most about that and should be given the responsibility but the person at the apportionment level should know better what the overall requirements are and should be able to make better decisions than, as I said before, an enthusiastic and interested program manager. That is usually the reason that they hold back funds by apportionment.

QUESTION: You mentioned the translation of the budget into these eight cost categories. I may be away out of date, but three years ago in the Army we were in the very peculiar situation of having a set of program titles that the Army insisted upon for our budget lineup and the Bureau of the Budget insisted on an entirely different set of titles that Congress required for appropriation purposes. That meant we had to make a translation from one language to another on the way up and retranslate it later. It was extremely stupid and time consuming.

CAPTAIN ADAIR: It would be if that were the case. Actually, don't get confused. The cost category takes the appropriations and spreads them by functions. That is where the confusion arises. You have an appropriation for maintenance and operation in the Army and the Air Force; the Navy does not. You have an appropriation for military procurement, we do not. It just so happens the names are similar in certain cases.

Now the appropriations are the ones that count. Those are the ones that go up to Congress. They are the ones you justify and the ones by which you get your money. The cost category is merely a tool for looking at the budget. The breaks are arbitrary. You can get a book on the budget cost categories from the Department of Defense that tells you which portion of your appropriation will go in each category. The only purpose of this is to help you to get a better understanding as to what you are asking for and to get comparability between departments. Regardless of appropriations, which may differ between services, you can get comparability between them by the cost category break.

It is just a tool to enable you to look at the budget better and to understand what the dollars are being requested for and how they are being used. It is also useful in the same way to break expenditures down. Don't get confused between the two. Appropriations are the ones under which you ask Congress for obligating authority. You could get along without the cost category but it is helpful.

As a matter of fact, I don't think you would get along as well within the service if you had all the appropriations identical with the cost

category break. In the Navy, each bureau has responsibility for one or more appropriations which they justify all the way up and they spend their money that way. We think this is a better appropriation structure because then the man responsible for spending the money in that particular appropriation justifies it himself. He doesn't have to do as the Army has to do. When they get an appropriation under "M and O," they have to apportion it to the technical services. If you get cut in "M and O," you have to decide where you will cut in the technical services.

QUESTION: I was more or less instructed over at the Pentagon, getting back to the apportionment deal, that its purpose was to employ the budgeteers for the remainder of the year. They only had enough work to keep them busy for nine months. But it looks to me as if Congress has already done that. They have appropriated specifically the money for each item in the program. How can you spend more money in the year than you have on your program?

CAPTAIN ADAIR: The reason for that is that little point in which Congress said that it is the responsibility of these agents who are spending money to spend as little as possible in order to carry out the program. You have to take into account all the changes that have taken place since the money was originally appropriated. If you start a budget 12 months ahead or 18 months ahead, by the time it goes to the Bureau of the Budget and the Secretary of Defense, many changes may have to be included later at that level. Everyone makes his own interpretations. You can get two people to read the same thing and they will come up with different interpretations. One may carry his program on a little further than someone else. When it comes to the next level of review, that person's interpretation may be different and he also has responsibility for carrying out, not only that particular program, but several others. So management has to apportion funds in the best manner to get the job done and also in accordance with the intent of Congress to get it done for the least number of dollars. I think all of us taxpayers would like to see programs done for less if you can have it done that way.

QUESTION: Another question on apportionment, when the Navy lets a contract for a ship like the Forrestal, is that one apportionment or as the work progresses does that have to go up periodically and get additional apportionments?

CAPTAIN ADAIR: The obligating authority, which is nothing but credit, is given by Congress initially. Then that money is apportioned

as required to construct the ship from year to year. Of the total amount possibly only five million dollars might be required in the first fiscal year, depending on when the contract is let. Then, as the work progresses, you request additional amounts and they are apportioned to you in the year in which required.

QUESTION: Would you care to explain briefly the possibility of the reinstatement of a major item which has been set aside by the Bureau of the Budget through the various steps and including when it hits Congress?

CAPTAIN ADAIR: In speaking of reinstatement, let us assume that the original department had a very important project in their budget and it was cut out by the Department of Defense. Then the budget goes on to the Bureau of the Budget where they hold their review of the budget without this item included. As a matter of fact, the reinstatement of an important project doesn't have too much chance unless it is of such an urgent nature that it is brought up later by the reviewing agency.

It is for this reason that, at each level of budget review--and that could go away down to the technical service and in the Navy down to the Bureau--once a decision is made that an item is not important enough to be a requirement, then everyone who justifies that budget from there on up has to justify only what is in that budget, regardless of his feelings in the matter. It doesn't make any difference whether he feels he was given a lesser amount of money, he has to justify what was approved and he cannot introduce his requirement unless specifically requested at that next budget level to have that brought up.

After all, that is the only way you can run a military organization or in fact any other organization. The particular interested party doesn't have the responsibility for the broad program and there may be other more important programs that have to be funded. If everyone had in the budget everything considered to be important, the budget wouldn't be running about 34 billion dollars for 1957; it would be 70 billion dollars; and then there would be someone who felt that he didn't have enough.

QUESTION: With the election year coming up, it is pretty obvious what pressure will be on the defense budget, to reduce taxes, and what not. Would you care to comment on any of the ramifications in the Defense budget or the Navy budget which are not immediately apparent from a study of the papers?

CAPTAIN ADAIR: Well, that is a little difficult to answer. Of course, there are a lot of implications. At this point, you begin to see a rash of axe grinders in the paper as soon as word is out. It would be well if we didn't have those. The most important problem is going to be balancing the budget.

Of course, as I tried to point out, the new obligating authority which hits the press at this particular time is going to be confused with expenditure estimates that are being made at the same time, though they are not directly tied together. The obligating authority given for fiscal year 1957 will affect expenditures but it will be in 1957 and later years, not in 1956. Of course, it is the first three or four months of fiscal year 1957 that they are interested in, but chiefly it is the entire fiscal year 1956. But, as I have tried to point out before, it is almost too late to affect expenditures drastically between now and next July.

There is going to be a lot of effort made, however, to do this. You will notice various releases are being made from the Department of Defense that we can't cut back much more in this area without jeopardizing our defense effort and our standing in the world. But there will be many releases from many sources. If you will keep track of expenditures on one hand and obligating authority on the other and realize that expenditures are not affected much by the new obligating authority they are talking about, you will be able to pick out the confused point.

QUESTION: You made the computation of that cost category budget seem pretty simple. Actually you said that any one of us could take a look at the number of men and by using a percentage of that come up with various other elements of the budget. If that is so, how do you account for the tremendous review of the budget in detail and also the number of budgeteers involved?

CAPTAIN ADAIR: That is a very good question and I am glad you asked it. This budget is simple. It is on a cost category basis, a very broad basis. Anyone can do it at that level without too much difficulty. What I should have said is that the most difficult part of all is to make up the budget of a department and get the dollars that are required in the right amount in the particular appropriations, not this cost category. Getting those dollars spread properly in activities, projects, and subprojects within the appropriations is the job of the technical services and the various bureaus. That is the job that is really

difficult. Anybody can get up a budget with this cost category, but what you are doing at the appropriation level is to place those hard-fought for dollars in the right places. Looking at the budget with a broad viewpoint is simple. The real work is in the other area. That is where you really have to have those administering the budget do the work.

QUESTION: From the various steps in the detailed reviews that this budget goes through before it is finally approved, it would seem that it must be very rigid. I am wondering what degree of flexibility there is in it. I gather if I don't want something, there is no particular problem in stability, but suppose we want something else, the requirements change, to what extent can we add as well as subtract?

CAPTAIN ADAIR: You have a certain amount of flexibility within your appropriation. That is you can shift five percent between activities or projects. You have no flexibility whatsoever between appropriations. Congress gave you money in that appropriation and you may not shift without their later approval. Sometimes they give it in legislation. But actually during the fiscal year you may not shift money between appropriations.

Now within activities, which is the next break within appropriations, you may shift dollars within limits as required in order to do a job. For example, if we had a breakthrough in research and development where suddenly we had a new type of missile that was so much better than anything else, we ought to go into production immediately. We might need more money than we had originally funded for this missile, either in major procurement for production or in the research and development portion.

In that particular research "breakthrough" area there is a sort of flywheel. For example, in the 1956 budget, the Secretary of Defense has 30 million dollars available to take care of such things. He had also asked for language which would allow him to transfer 200 million dollars from funds in any other appropriation which were not obligated. Congress reduced this to 50 million dollars. So there is at this time 30 million dollars in the funds of the Secretary of Defense that he can give to anyone for such things. He can also take 50 million dollars from other appropriations, if the funds are not being used. So a "breakthrough" is covered to the extent of 80 million dollars, and I think for the most part that will cover anything we might require.

While on this subject I might mention that, if you are going to fight a war, there seems to be a feeling that dollars might cause us trouble. Dollars are of no value to you when you want to start production. You won't need them for a long time. The important thing is the control of your men and your materials, and I think wages. If you can control men and materials, you don't care whether you have any money or not. If you have contract authority, in effect all you want to do is to go to the aircraft company and say, "I want every plane you can build as fast as you can build them." Give him all the aluminum and other material he needs and all the people he needs in order to build those planes. If you can do that, you don't care about money. Thirty billion dollars of obligating authority isn't worth that (snapping fingers) to you. You could have that, but if you couldn't give the people and the material, he couldn't build you one more plane than he has coming off the line. Even if you gave him all the people he needed and all the materials he wanted, it would take him six months before he could increase his production schedule by a dozen planes. It might be a year.

If you think back, you will remember we thought Hitler couldn't fight a war because he didn't have enough money, but all he needed was enough gold to buy raw materials from other countries. With complete control of material, men, and wages within Germany, he didn't need a nickel. All he needed was to tell them what to make and they could turn it out. And he fought a pretty good war on that basis, so don't worry about money.

All we need do is go up to Congress and talk to four people, the chairmen of the appropriation committees of the House and the Senate and the chairmen of the Senate and the House Armed Services Committees, and say, "We would like contract authority to go ahead and do these things." You could get it like that (snapping fingers). They might call a meeting of Congress later and authorize it, but if you get those four people to say yes, you can do nearly anything you want if it is urgently required in the interest of national defense. All you need quickly is the contract authority to build necessary items. Then you could go out to an aircraft company and tell them you wanted all the planes they could build of this or that type. Every department has certain companies they are more or less responsible for and those would be the ones requested to deliver equipment as fast as possible. We could speed up the production of guided missiles or anything else and not need an extra dollar for six months. We might need authority to expand production by building new plants but the dollars could come much later.

QUESTION: What is the procedure that a service chief can turn to if he feels that a particular project of his budget has been turned down by the Secretary of Defense or the Bureau of the Budget and he would like to present it to the Congress or the people?

CAPTAIN ADAIR: His best bet is to keep quiet. You are not supposed to do anything except justify the projects which have been reviewed and kept in your budget. I would take a dim view of any service chief, I don't care who he is, who opened up a subject on the Hill by saying, "I haven't been dealt with fairly." There would be a new service chief in two minutes. I don't think anybody can run a department if there are people running around behind him saying, "I want this; I want that." A stop should be put to that, and I would take drastic action. I don't think I would have to take it more than once. Put yourself in that spot as the Secretary of Defense or as the President and see if you wouldn't want to operate on that same basis. If it is an important project, it would be in the budget. If it is really important, I don't think it would stay cut out.

QUESTION: How about the Marine appropriation?

CAPTAIN ADAIR: Now there is a good example of what happens. The Marines were given by the JCS 193,000 military personnel for 1956. It went all the way through the budget review at that number. The Marines wanted more. Everybody wants more. But that was the decision and they stuck by it. The budget went to Congress. Congress said, "We think we ought to have more personnel in the Marine Corps." The Marines didn't bring it up as a complaint of too low a ceiling.

Congress decided they did want more men in the Marine Corps so they put funds in the budget at that level. OSD said, "That's fine. You can have the people, but we won't apportion you any money for them at this time," and that is the way it is right now. The money is in the budget, but the Marines don't have it and they won't get their apportionment until later. If the re-review of the JCS, due out in the next few weeks, should increase the force level, they might get some more funds released.

QUESTION: I wonder if you would explain a little more how you get to the major budget categories? Can this be done directly at the particular program level or do you have to go down to the particular project level?

CAPTAIN ADAIR: There is a book put out by the Secretary of Defense in order to insure uniformity in the spread of the appropriation. It takes each service appropriation and breaks it up and says, this piece will go here and this there. It is done by the program people at the department level. It is not too complicated. You could have that done for you or you could get it in published documents by the Secretary of Defense as a breakdown for any service by cost category for any fiscal year or any number of fiscal years. You don't have to do it yourself.

QUESTION: I notice that the restriction which Congress puts on by limiting appropriations seems to be a very impressive method. Also the task force of the Hoover Commission suggested that Congress get out of that type of operation. Would you care to comment on that?

CAPTAIN ADAIR: I don't know what they would want to substitute for it. The Hoover Commission recommendations are sometimes quite strange to me, being in the budget business, and sometimes I don't agree with what they have recommended. But I think that the congressional system of appropriating money by appropriations for a specific purpose is a good one. It insures that that particular program will receive the support Congress desires and doesn't allow it to be shifted between programs, you might say, or between appropriations at the whim of whoever may be running the service.

For example, suppose we, the Army, Navy, and Air Force, got all our money in one appropriation and anybody could shift it as he wanted to. I think you would have a great deal of pressure on the service Secretaries and the Secretary of Defense to shift money from this, that, and the other program which they don't get now. Congress in their last look at the budget would like to see these approved programs carried out at the approved levels. They put the money in these major pockets or appropriations. This system insures Congress will get that program carried out as justified to them. Otherwise, they would have no control over the funds appropriated.

QUESTION: Recently, in the newspapers the Air Force was censured to some degree for their contracting of communications services, which raises a question in my mind. To what extent does the Appropriations Committee in Congress expect the services to consult with them after they have already gotten the funds to conduct their business or to what degree is it necessary? Is it something unusual or do they expect rather frequent working contacts to be maintained on the use of money after it is appropriated?

CAPTAIN ADAIR: Actually they do. If you have a major program that is coming up requiring reprogramming of funds within an appropriation, they wish to be notified in advance of that to see whether or not they approve of it.

For example, suppose the Navy justified certain types of ships in their shipbuilding program and we want to make a major change in those ships, from normal power to nuclear power, or vice versa. That would be sufficient change or important enough that Congress would desire to be notified about that. The House and Senate Appropriations Committees' chairmen and the House and Senate Armed Services Committees' chairmen would want to know the reasons for the changes. If it was very urgent and we needed the approval quickly, we could go up and talk to them. If not, we would write a letter requesting approval and, unless they disagree, we would go ahead with the new program.

They want to be kept informed. Congress indicated there was too much reprogramming within appropriations and between activities by the Services, that we are shifting our programs drastically without their knowledge and without their intent. They have put in this last committee report on the FY 1956 budget a request that we notify them twice a year as to any major shifts of funds within our budget.

Now a major shift of funds could be almost any level. I would say around a million dollars or so. It depends on the circumstances.

QUESTION: Could you tell us where the Armed Services Committees get into the picture in the main budget itself?

CAPTAIN ADAIR: Normally they are not concerned with it at all. They do set policy and determine policy on the whole a good bit and they have an interest in it. Most of them in the Senate and House are the most influential members. In the Senate, they may be members of both the Armed Services and the Appropriation Committees; in the House, they are not. But otherwise they do not get in on appropriations. That is the entire responsibility of the Appropriation Committees. They sometimes have a particular interest in certain areas. At the same time that we are having budget hearings before an Appropriations Committee, an Armed Services Committee may suddenly call a meeting and invite witnesses, or call them up and go into details of various programs. That is all. The 1956 shipbuilding program review by Mr. Vinson and his committee had no immediate bearing on appropriations, but it did influence opinion a bit.

QUESTION: You mentioned committee reports. My question is, you didn't mention the general provisions of committee reports and their effect on the services.

CAPTAIN ADAIR: The committee report often gives the intent of the committee in writing and is a very good reference book to read in regard to what they had intended when they cut out or added to the budget. It actually legally has no standing, but I think year after year when you go up to get your money, you should definitely pay attention to it. The reports do have a direct bearing on the budget, and of course they are legal.

Those various provisions you mention are in the appropriations bill, and are added to further control the money of the appropriation you get. For example, they may prevent you from spending more than 240 dollars per dependent student and you can't spend any more than that on anyone going to school.

Another one which received considerable discussion is that provision that you could not close up any activity or business, you might say, that the Department of Defense is operating without approval. Closing the paint factory at Norfolk or the rope walk at Boston, any of these, required advance notice of at least 60 days to the committees of Congress and their approval as to whether or not the activity would be closed up.

In Congress, often people on the floor try to add amendments to prevent the use of any dollars in such and such a bill for such and such a purpose. Those can be thrown out normally on a point of order. Sometimes they slip through and could drastically affect your expenditure of funds in many ways. Pay strict attention to any of those that are added to House bills. If they pass the floor of the House, you may find it possible to get the Senate to delete them in the Senate version of the bill and to later win House approval also.

CAPTAIN GERWICK: Captain Adair, this has been a very interesting discussion, but our time is running out. On behalf of the Commandant and the rest of us, thank you very much.

(28 Nov 1955--250)K/ibc