

THE FEDERAL BUDGET

15 October 1956

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INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

Honorable Percival F. Brundage, Director, Bureau of the Budget, was born in Amsterdam, N. Y., 2 April 1892. He received the A. B. degree, cum laude, from Harvard in 1914 and Doctor of Commercial Science from New York University. From 1930 until 1954 he was a partner in Price, Waterhouse & Company; and from 1944-54 was president and director of 56 Pine Street, Inc. Mr. Brundage served as a Director of the National Bureau of Economic Research, 1942-54 and was President of the Bureau in 1954. He became Deputy Director of the Bureau of the Budget in 1954 and assumed his present position as Director on 1 April 1956.

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ADMIRAL DEUTERMANN: Good morning.

Our subject this morning is "The Federal Budget." I am sure that everybody here is conscious of the terrific impact the budget has on our national economy and on the national security.

Our speaker today, who is the Director of the Bureau of the Budget, is probably the busiest man in Washington. At least we Indians in the Pentagon who have had experience in the initial go-around getting the papers ready for him were so impressed.

You have his biography, I need not dwell on that. I would like to mention a recent "Nation's Business" issue which pointed out that Mr. Brundage's personal interests are almost as wide as his professional interests. He likes to square dance, shoots in the low seventies in golf, plays fine sets of tennis, does a bit of painting in water color, and likes to travel. Considering how busy he is, I think that we are especially honored that he should take time out to come to talk to us again. He was here last year and left a wealth of information with us.

Mr. Brundage feels that the budget should be felt but neither seen nor heard. We have all felt it. This morning we have a chance to take a peek, and we have a chance to listen.

Mr. Brundage, it is a pleasure to welcome you back.

MR. BRUNDAGE: Good morning, gentlemen.

Mr. Chairman, it's a real pleasure to be back with you again. I found your session last year most stimulating. I hope you got as much out of it as I did.

I think that the budget is important to all of us. I think the Federal budget is important to you in your studies in the Industrial College, because defense purposes take so much of our total tax money. I know the budget is important to us as individuals, because the taxes take out such a large part of our personal receipts. Everyone is therefore interested as to what is being done with the budget.

I think the budget is also important because it mirrors the philosophy of the Administration--the basic policies as to foreign relations, as to defense, and the various domestic programs. These policies are tremendously important to us both as citizens and as military or civilian officers.

Now, in view of the importance of the budget, it's rather surprising, I think, that until thirty-five years ago there was no integrated budget for the Government as a whole. The Secretary of the Treasury merely printed and transmitted to the Congress the requests which each of the departments and agencies prepared without any regard to how the programs of one agency were integrated with the programs of the other agencies or the total amount that the agencies might be requesting.

Of course, prior to World War I the annual cost of all of the Government's activities together was less than a week's expenditures today on our major national security programs. The total budget receipts for the fiscal year 1916 amounted to \$762 million, and the total budget expenditures to \$713 million, while the current cost of our major national security programs today is about \$785 million a week.

The expansion of Federal activities and the sharp increase in the public debt from \$1.2 billion to \$25.5 billion during World War I--which seemed like a tremendous debt at that time--stimulated budgetary reform and resulted in the passage of the Budget and Accounting Act of 1921.

Now, the basic philosophy of that act, which is still in effect today, is, first, that the President himself assumes responsibility for proposing the budget to Congress, thus eliminating the concept of departmental self-determination. But the Congress retains the right to dispose of the proposals as it wishes.

Second, the budget is a financial expression of the Government's program for the fiscal year. As it has developed, the budget now covers the entire Government program, including recommendations for new legislation to be presented to the Congress later in the session, and the activities of the various governmental corporations.

Third, the budgetary process is designed to eliminate duplication, waste, and inefficiency, both within and between agencies. This is achieved by the coordinated overall review made on behalf of the President.

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Fourth, the budgetary process is a device for obtaining better administrative management, as well as better fiscal planning and control. I think business has found that generally by close budget preparation and then maximum performance against the budget they get the best and most effective management control.

And, fifth, the budget indicates the relationship between proposed expenditures and anticipated revenues.

Chart 1, page 4. --The Bureau of the Budget is part of the Executive Office of the President. It's administered, as you see on this chart, by a Director, a Deputy Director, and three noncareer Assistant Directors. There are four offices, so called--Budget Review, Legislative Reference, Management and Organization, and Statistical Standards--each of which is headed by a career Assistant Director.

Recently an accounting group to help improve accounting practices throughout the Government was set up under one of the noncareer Assistant Directors, Mr. Rappaport, who has spoken to you, I believe. Setting up such a group was one of the Hoover Commission recommendations.

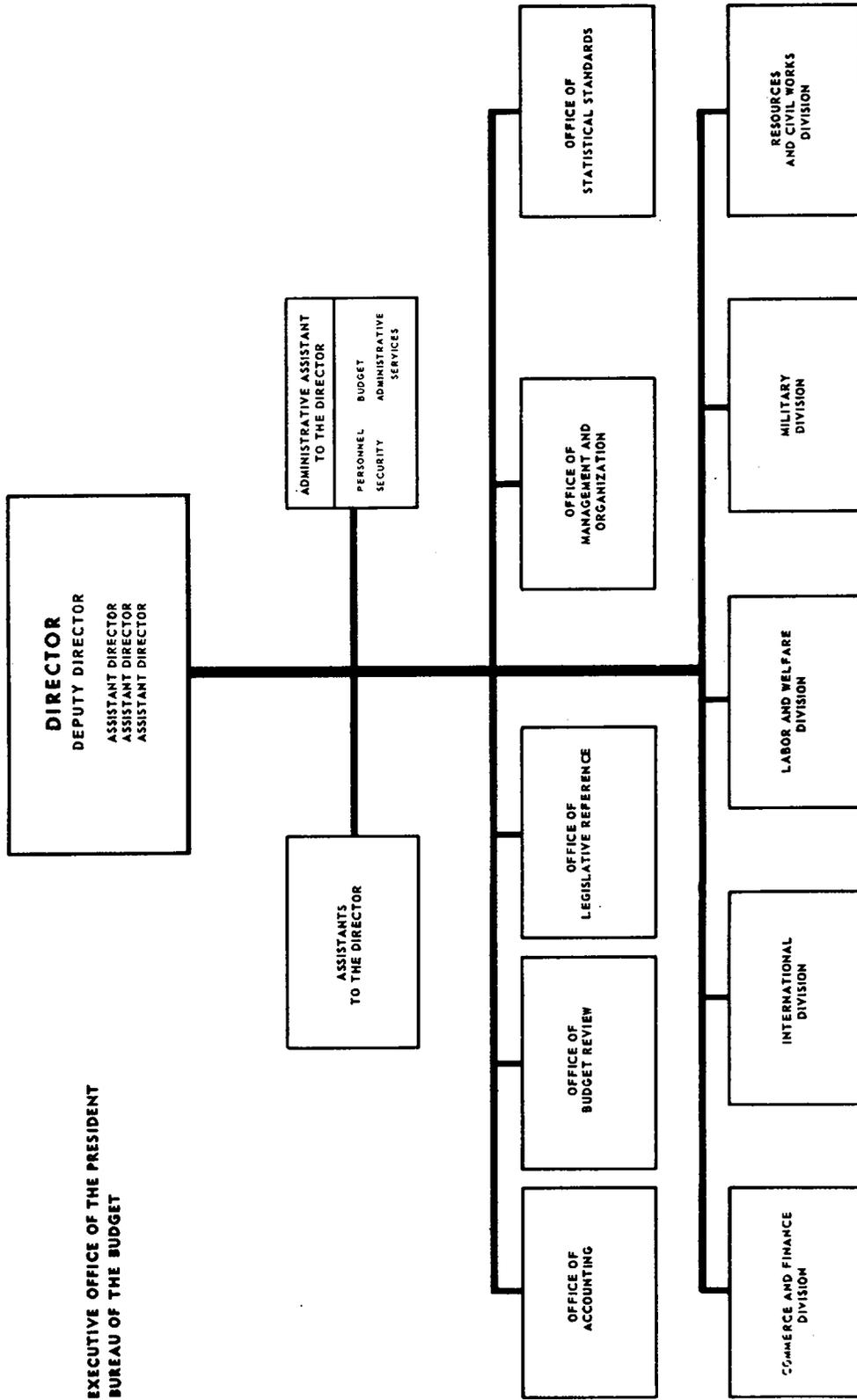
Each agency of the Government, each department, is assigned to one of the five divisions that you see at the bottom of the chart--Commerce and Finance, International, Labor and Welfare, Military, and Resources and Civil Works. Each of these divisions is headed by a career chief. We have a total staff of about 425.

I am not going to discuss the activities of the divisions separately, since they work directly with the agencies on the budget and problems of organization and legislation, for which the offices provide general staff guidance. But I will outline very briefly what these four offices' functions are.

The Office of Budget Review, as you may surmise, is responsible for coordinating the preparation and publication of the budget.

The Office of Legislative Reference coordinates proposals for new legislation. Whether proposed by the Administration or proposed in Congress, draft bills come through this Office for coordinating the opinions of the various agencies, and to provide advice to congressional committees concerning the relationship of specific pieces of legislation to the President's general program.

Chart 1



November 1, 1956

After legislation is passed by the Congress, the Bureau supplies the President with a recommendation as to approval or veto, indicating the views of each of the interested departments and agencies on the enrolled bill.

The development and review of reorganization plans and other programs designed to improve the management of the executive branch are the responsibility of the Office of Management and Organization. This office is also concerned with Government-wide management and service activities, such as personnel and property. Recently the recommendations of the Hoover Commission have occupied much of its attention. Each one of the recommendations--some 380 in all--was analyzed and reported upon separately.

The Office of Statistical Standards is charged with the Bureau's responsibility for the improvement, development, and coordination of Federal statistical services. We don't actually collect statistics, but we have general responsibility to see that the Bureau of Labor Statistics, Census Bureau, and all the other various statistical agencies coordinate, make fair samples, and make periodic reports.

This Office also maintains surveillance over the national security aspect of the publication of statistical data, and serves as a focal point for United States participation in statistical activities of international organizations.

The foregoing description of the Bureau's functions indicates, I think, that considerable knowledge of the operations and activities of each of the departments and agencies and of Presidential policy is required of the Bureau.

Now, with regard to the annual budget, it is important to realize that the period during which the budget draws the greatest public attention--that is, when the President sends his budget message to Congress early in January, and during the subsequent congressional hearings--has been preceded by about a year of preparation, analysis, and review.

Setting aside for a moment the military portion of the budget, the preparation of the rest of the budget follows this general procedure: In April, well over a year in advance of the beginning of the fiscal year, we begin to formulate the guidelines that will control the preparation of the budget, that is, the economic assumptions, and the

domestic and international forecasts. Preliminary discussions are held with the heads of the principal agencies in May and June to determine whether any new programs will be required, what extensions of old programs are necessary, and what reductions or terminations of existing programs are possible and desirable.

We then develop and discuss with the President and the Cabinet a preliminary overall estimate of the probable expenditure level forecast, compared with the Treasury estimate of what the receipts are likely to be. This is the first one and is very preliminary, just to give the general measure of magnitude.

An overall ceiling on controllable appropriations for each major agency is then established, together with a target for other items. I am speaking now of all but Defense.

The agencies are then asked to submit detailed requests with justifications for the ensuing fiscal year. The requests are expected to be consistent with the overall ceiling and the general policy of the Administration. The normal date for the receipt of these requests is the latter part of September. To permit adaptability to changing conditions, separate over-ceiling requests are permitted when they are necessitated by unforeseen contingencies and when offsetting savings cannot be found within the ceiling amount.

During this same period, between June and September, the Bureau of the Budget is actually working on budgets for three fiscal years. During the past few months, for example, we have been analyzing and summarizing the results of the fiscal year ending 30 June 1956, in order that they might be published in our Midyear Review. At the same time we have prepared revised estimates for the fiscal year 1957, which is now under way--revisions which reflect the actions of Congress and the other changes since the original estimates in the January budget. Then, as I have just indicated, we have been at work since early spring on the budget for the fiscal year 1958, which will be sent to the Congress this coming January.

Now, during the months of October and November the Bureau of the Budget holds hearings with each of the agencies on their proposed budgets. At these hearings, agency officials can supplement the written justifications and answer the questions of Bureau examiners about their budget requests.

After the hearings, and drawing on all the information gained throughout the year, the Bureaus' examiners make recommendations to what we call the Director's Review. In this review, the Director, the Deputy Director, and the Assistant Directors, together with the top staff of the Bureau, discuss with the examiners the issues involved in each of the agency requests; all of this in light of the other agency appropriation requests and general budget policy.

The examiners' recommendations on the agency requests, as modified in the Director's Review, are then summarized for presentation to the President for his approval or modification and discussion with the agency itself.

Turning now to the military portion of the budget, we pursue a slightly different course, because of the size and the issues involved. In all four budgets with which the present Administration has operated-- the revised 1954 budget, originally submitted by President Truman, and the 1955, 1956 and 1957 budgets--all decisions governing military policy, such as force levels, procurement objectives, and the like were thoroughly discussed with the Joint Chiefs of Staff and the National Security Council. Moreover, they had the President's approval before budget action to carry them out was even formulated. No ceiling was set, as with the other agencies. Instead, the general size of the military budget was determined by the decisions made on the strength and structure of the forces.

Now, because the objectives of the Secretary of Defense and the Joint Chiefs of Staff are essentially the same as those of the Executive Office and the President, and in order to avoid duplication of work within the limited time period we have to work, the Military Division of the Bureau of the Budget works with the Staff and the Assistant Secretaries of the Department of Defense in reviewing the proposals of the three services. I understand you have already had a talk from Secretary McNeil, and that he referred to this joint operation and some of the problems facing us for the future.

After submission of the budget estimates by the Secretary of Defense, an evaluation of the new budget requests is made in relation to existing programs and approved policies. Possible modifications are discussed again in the Security Council and the Cabinet and with the President. The budget is thus based on policies established by the President after consideration of the recommendations of the Joint Chiefs of Staff and the Defense officials.

In December, after Presidential review of the military and other departmental and agency budgets, and after decision on new legislation to be proposed, the final estimates are prepared. The President's budget message is written, and the budget document is sent to the printer. Under the law the budget must be transmitted to Congress, together with the budget message, within fifteen days after the session of Congress opens. Congress usually opens on the third; so the budget has to be in about the middle of the month.

The budget document not only presents tax and spending estimates for the fiscal year beginning about six months after it is sent to Congress, but it also contains revised estimates for the fiscal year then current. It also constitutes the annual report on Government activities, showing the actual budget results for the fiscal year which has ended six months previously.

These three-year comparisons give an indication of trends. The figures are accompanied by explanations of the programs, and therefore the document also sets forth the goals and policies of the Administration.

Now, while the budget is one document, it contains two different sets of figures covering the same programs. I suppose you have all struggled with these two before--the new obligational authority and the expenditures. The budget in the first place shows how much money the President requests from the Congress each year to carry out the present and proposed programs of the Government. Congress turns these requests into appropriation bills, which it considers and upon which it acts.

Appropriations provide the authority--usually called NOA--new obligational authority--for Federal agencies to incur obligations and spend money. But the money itself must be raised by the Treasury, of course, through taxes or, if necessary, by borrowing.

In the second place, the budget contains estimates of how much money the Government is actually expected to spend each year in carrying out its program, and how much it will receive from taxes and other sources.

Now, it's the expenditures and the receipts, rather than the new obligational authority, which determines whether the budget is balanced or unbalanced.

Under the Constitution no one in the Government may make disbursements until an appropriation law is first enacted by the Congress. However, the amount of appropriations passed by Congress for any one year and the amount which the Government spends in that year may be very different. This you realize, I am sure, is true because only a part of the funds appropriated and obligated in a certain year are spent in that same year. The balance may be spent the following year, or in the case of long-lead-time items, several years later.

Funds spent in any one year, therefore, come both from appropriations voted by Congress for that year and from funds voted in earlier years but not spent. Those may be obligated or unobligated; that is, the contracts may actually have been signed for these expenditures or not.

For example, money for the military pay is usually spent in the same year in which it is appropriated. That's easy to understand. On the other hand, most of the money for jet planes, aircraft carriers, and guided missiles is spent several years after it has been appropriated. This delay, of course, comes about because of the long lead time required to design, order, produce, and deliver the equipment. That is why we have to plan so far ahead.

In its first three years the present Administration held new obligational authority below expenditures and was thus able to reduce the backlog of unspent, previously enacted appropriations. For 1957 it is expected that the total of new obligational authority will exceed the total expenditures. However, it will still be below the amount of estimated receipts. This means that the new commitments planned by the Government are within its expected revenues, which will make the continued budget balance possible.

In the four fiscal years 1950 to 1953 appropriations exceeded Government revenues by \$94 billion. There was a carry-forward, as you recall, when this Administration came in, of obligated, unspent balances of about \$80 billion. This led to unbalanced budgets. By contrast, in the four years 1954 to 1957 revenues are expected to exceed appropriations by \$11 billion. This leads to balanced budgets.

Some of you may ask--I am sure, not many--why balanced budgets are desirable. I am certain you are familiar with the results of unbalanced family budgets. And unbalanced national budgets are even more dangerous in a sense, because the inflationary effects are felt by everybody and the value of everyone's dollar goes down.

The present administration took office on a platform which called for reduced Government expenditures, reduced taxes, and the achievement of a balanced budget. These goals are not simply ends in themselves, but are related to the world situation and to domestic responsibilities.

The President's budgetary goals are closely related to the economic strength and the security of the Nation, which must be maintained for the long pull. If the Government takes a smaller proportion of the total national production, more resources are available for private investment and expansion. Various "rules" have been set as to the theoretical maximum proportion that the Government can take out of the national product or out of individual incomes. You may have heard of the discussions of the Australian economist, Colin Clark, who said that taking over 25 percent of national income would endanger the economy. I doubt if there is any fixed proportion. In any event, we got down to 20 percent this year. It was 25 percent when the administration took office in the fiscal year 1953.

Individuals and corporations are thus encouraged to show initiative and undertake risks. As a result, the Nation can be more productive and stronger with a lesser proportion of its income taken by the Government. With a strong and growing economy the United States can more easily convert to military production in case of an emergency. It can more easily support the large expenditures for our own Military Establishment and for the aid to our allies which seem to be needed for the indefinite future, at least as long as the Communists threaten peace and liberty.

While we cannot expect the spirit of wartime sacrifice to continue over a long period of years, we must remain strong, so that no nation will dare start aggression against us.

Fiscal stability, an effective national security, and a strong and growing economy therefore contribute one to the other, and you cannot sacrifice one in order to obtain the other.

Our essential problem, as the President has stated, is to strike the proper balance, to find the great equation, of military and economic strength linked with continued national growth. We should not move so rapidly to a balanced budget that we endanger our deterrent and retaliatory power. Nor should we add to our stock of weapons so fast that we cause inflation and make our defense buildup unnecessarily costly and burdensome.

If we must have more military appropriations, the President has said, then let's finance them with increased taxes. I think one of the curious weaknesses of the opposition's campaign and platform this year is that on the one side they have advocated greater military spending, and that on the other side they promise tax reduction. You can increase expenditures somewhat with an expanding economy, as we have seen our total receipts go up; but receipts don't necessarily go up as fast as expenditures, and tax cuts would reduce the receipts available.

Now, much progress has been made during the past three and a half years. The budget was balanced, you know, in the fiscal year 1956, just ended; and a balanced budget is expected for the fiscal year 1957.

Annual expenditures have been reduced about 5 billion dollars overall from 1953, and tax rates have been reduced. Government receipts have risen, because of the tremendous rise in personal and corporate income. We hope this rise keeps on going, but we can't expect it to continue at an accelerated rate.

At the same time we have succeeded in maintaining the largest and most powerful Military Establishment that this country has ever had in peacetime. We have built mobilization stocks of strategic materials and key military items to greater levels than ever before in peacetime. We have introduced new weapons, as you know; and we are stepping up the rate of modernization. We are building a continental defense system to meet new methods of attack. But here, too, we must exercise restraint and judgment. We have constructed large and modernized bases all over the world, and we have delivered large quantities of supplies and weapons to other nations. Along with our fiscal stability and effective national security, the national economy has become stronger. Our total national production is running at an annual rate of over \$400 billion.

This unprecedented upsurge has occurred while the value of the dollar has remained generally stable. You know it went up about 2 percent in the last few months. It had remained stable for three years. So that the total change since January, 1953, has been approximately 3 percent, which is about a fourth of the change during the preceding three years.

Let us now look at the budget in more detail. I brought copies of the 1957 Midyear Review of the Federal budget, which was issued at

the end of August. I don't know whether you would like to have somebody distribute these or pass them out afterward. I don't think it's necessary to do it now. You can pick one up if you haven't seen it.

The review contains the revised estimates, which take into account the congressional action on appropriations and legislation as well as other developments since the January budget was issued. These revised estimates are compared with the actual results for the four fiscal years 1953-1956 inclusive, and with the original estimates for 1957, which were transmitted to the Congress last January.

Now, this budget summary here, Chart 2, page 13, shows the general trend for the five-year period. Expenditures back in 1953 were \$74.3 billion, just under \$75 billion. They declined, as you see, to about \$65 billion, and have increased again. They are estimated at \$69.1 billion for 1957. Receipts were \$64.8 billion, just below \$65 billion, at the outset in 1953, and they are anticipated to amount to \$69.8 billion in 1957. The sharp dip down to \$60 billion in the fiscal year 1955 was immediately after the tax cut.

These incomes are very well distributed throughout the country, more evenly than ever before in our history.

In 1953 the budget expenditures were 25 percent of the national income. In 1957 they are estimated to be 20 percent, reflecting both the decrease in expenditures and the increase in national income.

Turning now to the next chart, Chart 3, page 14, we see the most important features making up the total budget. Three-fifths of the total, \$40.8 billion, will go for major national security programs. These programs include the military functions of the Department of Defense, the military portion of the Mutual Security Program, Atomic Energy, stockpiling, and defense production expansion. Of the \$40.8 billion estimated for these four major national security programs, \$36 billion will be for the Armed Forces. This is some \$300 million more than was actually spent this past year in 1956, which in turn was \$150 million more than in 1955.

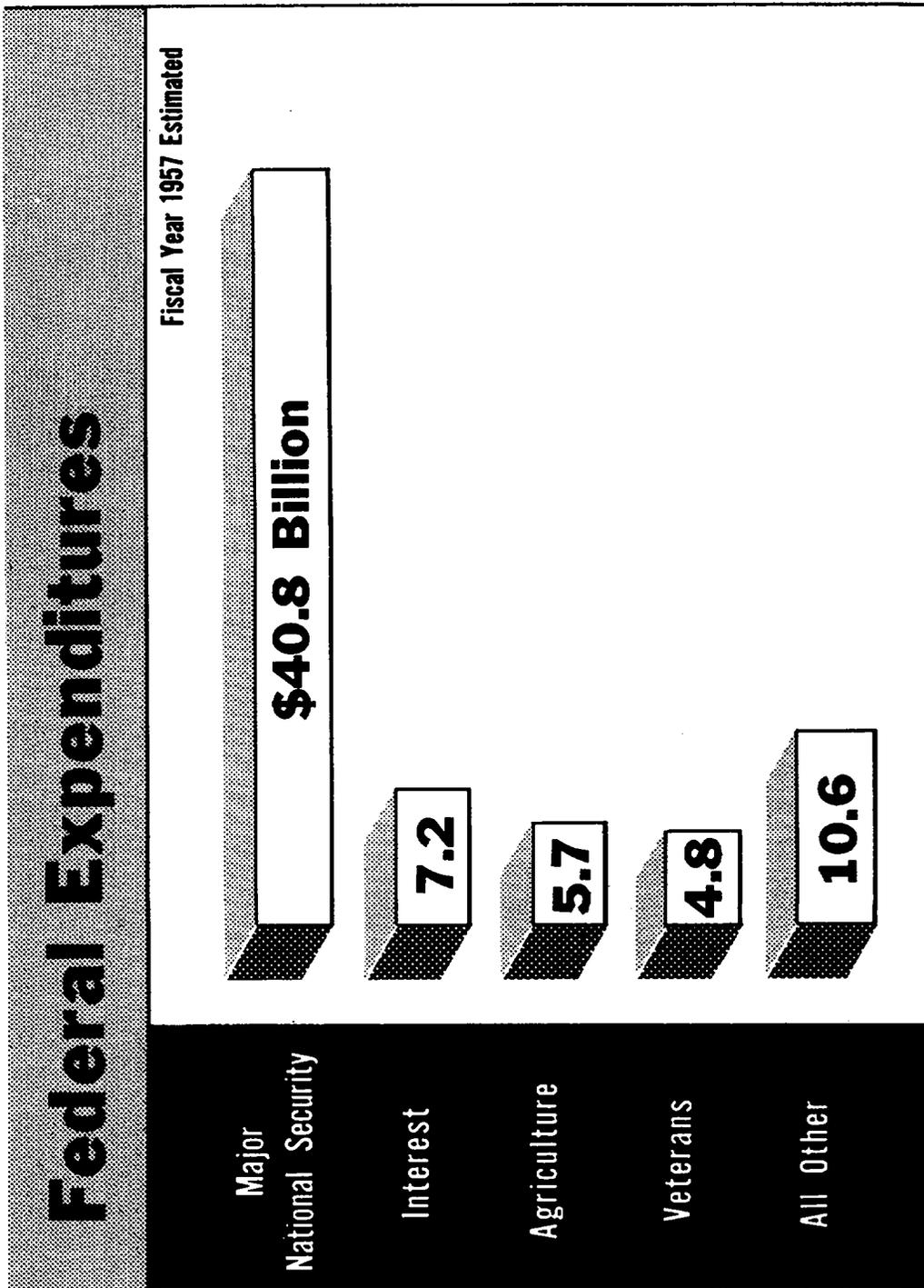
Expenditure increases for 1957 over 1956 are estimated for operation and maintenance, reserve components, research and development, and retired pay. Operation and maintenance costs are increasing due to the growing number of complex new weapons. Despite savings from improved efficiency, these costs can be expected to continue rising as

Chart 2

BUDGET SUMMARY

	Fiscal Years				1957 Current Estimate
	1953	1954	1955	1956	
BUDGET RECEIPTS	\$64.8	\$64.7	\$60.4	\$68.1	\$69.8
BUDGET EXPENDITURES	74.3	67.8	64.6	66.4	69.1
SURPLUS (+) OR DEFICIT (-)	- 9.4	- 3.1	- 4.2	+ 1.8	+ .7
NEW OBLIGATIONAL AUTHORITY	80.3	62.8	57.1	62.1	69.7

Chart 3



Executive Office of The President • Bureau of The Budget

CONFIDENTIAL!

This chart relating to the review of the 1957 Federal Budget is for release at 7 p. m., Eastern Daylight Time, Tuesday, August 28, 1956.

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more modern equipment is placed in the hands of our military forces. Continued emphasis is being given to the reserve components. In the fiscal year 1957 expenditures for this purpose are estimated to be about \$200 million higher than in 1956, and more than twice the amount spent in 1953.

Military research and development will have the highest expenditures in our history, reflecting emphasis on guided missile and aircraft development. As Secretary McNeil probably told you, he has estimated that research and development will total over \$5 billion, including procurement of test weapons but not procurement for stock.

Major procurement and production expenditures in 1957 are estimated at \$11.8 billion. In line with the policy of modernizing our forces, the types of items procured are continuing to change. Guided missile expenditures will increase markedly, while those for conventional ammunition and support vehicles will decline.

Military construction expenditures of about \$2 billion will provide for further expansion of facilities for continental defense, aircraft warning systems, and guided missiles. They will also cover conversion of existing air bases or construction at new bases to accommodate B-52 bombers. Construction will be proceeding at over 600 locations throughout the world, with two-thirds of the projects costing over \$1 million each this year. Just stop and think what that means--over a million dollars spent in 400 different locations throughout the world.

Expenditures for military equipment and training for other countries during the fiscal year 1957 will continue at about the same level as 1956--\$2.5 billion.

Atomic Energy expenditures--which, by the way, are largely for the benefit of our defense--are estimated to rise more than \$300 million, bringing the total to nearly \$2 billion.

The fourth major national security program--stockpiling and defense production expansion--will have lower net expenditures than in 1956, primarily because several large outstanding loans are expected to be paid. Since we are dealing with a program that has receipts and expenditures, capital items and loans are included under gross expenditures; sales and loan repayments as a deduction from gross expenditures. The figures in the Midyear Review are net expenditures in the case of the defense production expansion goals.

The budgetary approach has been selective during the past several years. The expenditures for some programs have been reduced, while others have been increased to the highest levels in our history. Thus we have been able to grow in strength while still reducing our total defense expenditures.

One reason for this reduction is that we have set aside the former concept of a fixed date of maximum danger. Under this concept, as you know, military planning was designed to achieve maximum readiness for each successive date selected. This was an extremely costly process, which made it impossible to plan on a more stable, long-term basis.

The introduction of new weapons and new techniques has enabled us to make greater use of science and technology; the lessened need for large numbers of men has thus made it possible to reduce expenditures. Other reductions in military expenditures reflect the growing strength of our allies; the termination of active hostilities, that is, in Korea; and the increased emphasis on our reserve forces. And more businesslike procedures have also played an important part. Substantial reductions have come from more orderly procurement, from improved organization and management, and from reduction of duplication. Other avenues will continue to be explored to find where more savings can be achieved without jeopardy to our security.

One of the important parts of that activity, I think, consists of better accounting, better management control and better inventory control. If we could get the Congress to adopt the changeover of appropriations to an expenditure basis, I think that there would be better control of expenditures and some simplification of agency accounting.

Remarkable progress has been made in many areas in the last few years. The Army, as you know, has developed financial accounting for its worldwide inventory. That will not only enable better control, but will prevent accumulations of excess inventory in one place while the same items are being currently procured in another place.

About 25 percent of the military budget in 1957 went to the Army, about 27 or 28 to the Navy, and between 47 and 48 percent to the Air Force. These percentages are not arbitrary. They haven't necessarily made any of the services happy, not even the Air Force; but they do reflect a serious effort to determine priorities, to concentrate on the most urgent requirements, and to proceed in accordance with an approved overall plan.

Coming back to the chart which shows where budget expenditures go, Chart 3, page 14, you see that the second largest category, after major national security, is interest, which is estimated to take \$7.2 billion or about 10 cents of every tax dollar. Those expenditures are expected to rise, despite the reduction in the national debt, because of higher interest rates.

Now, there is a demand from the opposition arbitrarily to reduce the interest rate. That could be done, and it had been done for a number of years, but the result is inflation. In other words, so long as you have a greater demand for money than you have a supply of money, interest rates tend to rise. If you keep them arbitrarily low, the only way you can accomplish it is either by printing money or by extending credit; and that makes the value of money go down. Secretary Humphrey, I believe, will be talking to you about our debt-management policy, and will, I am sure, go into that more thoroughly.

Expenditures for agriculture, the next big item, and for veterans have both been rising. If we can gradually succeed in adjusting agricultural production to demand, so that this important segment of our economy can get a fairer share of the total national income through normal market operations, Government expenditures for agriculture should decline in the future. We hope the soil bank and the flexible support prices will help in that direction. Expenditures for veterans' benefits, on the other hand, will continue to increase under existing laws as the age of the veteran population increases and more veterans become eligible for compensation and pensions. As you doubtless know, there are over 21 million veterans today.

All other expenditures of the Federal Government, the last item, will take \$10.6 billion in 1957. These expenditures cover our activities in the international field, in labor and welfare, natural resources, commerce, housing, and general government. You will find more details in that Midyear Review. But, as with the national security programs, selective increases and decreases have been made in these domestic civil programs during the last three years.

The legislative and judiciary together, that is, Congress and all of our law courts throughout the country that are financed by the Federal Government, together will take \$161 million during this next year. The State Department, with all of our embassies and consulates throughout the world, which is endeavoring to keep the peace so that we won't have to use our Military Establishment, is costing \$178 million. And in thinking of those figures, which are high in themselves, let's remember that

the Department of Defense is spending about \$100 million a day and that total annual expenditures before World War I--and that dates to the Civil War--were less than a week's expenditures on the national security programs today.

In conclusion let me say that there is terrific competition for each dollar of income, whether it is in a man's pay check or in the Government's tax roll. Individually we try to balance the demands of our stomach, of our body, of our family, of the community, and of the Federal Government. So in the Government, the Bureau of the Budget attempts to balance the conflicting demands on the tax dollar.

The Department of Commerce asks for more Federal funds for shifts in airways construction and for operating subsidies to new shipping lines and airlines, which they claim will be necessary for reserve protection in case of war. The Department of Health, Education and Welfare demands more funds for health institutes, for research, treatment of heart ailments, cancer, and many other things. They point out the success we are having in wiping out TB and reducing the dread disease of infantile paralysis. They say that it is more important to have a healthy population than it is to develop some of the programs for which the other departments are asking.

With our increasing population, we have a serious shortage of schools and teachers. There was a lot of discussion about that in Congress this last year. The Federal Government is being urged to step in with grants and other incentives to help the towns and cities build up to the needed requirements. They say that a population without education is not going to be able to sustain our economy or contribute to our defense.

Each of these services, as you know, has many needs and desires that are not filled--each of the civil services, as well as the military. The newer developments in missiles, warning devices, atomic reactors, and weapons are all competitive for the tax dollar. At the same time the demand for tax reductions grows. So that before long the Federal Government may have to relinquish part of its present take out of the weekly pay envelope.

It is not an easy problem. You should sympathize with the Budget Bureau in its efforts to strike a fair balance between these many demands and submit to the President and his Cabinet an overall balanced program. It is, of course, the President's final decision as to what the budget contains, and we are all trying to help him reach a sound and effective decision.

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Defense will always have an important place in our budget planning. Even if we should have success in final agreement on some of the differences with the Soviets, your studies are not going to be wasted. We are not going to be caught a fourth time in a state of disarmament. Our forces under arms, the reserve program, defense productive capacity, our stocks of weapons and armament are adequate today and superior in performance to those of any other nation. Our research and development will see that we keep in front in technology and all the newest inventions. But we must not lose sight of the overall balance in all of the areas. I think that is the message that I would like you to keep in mind particularly.

I am not going to speak any longer, because I think perhaps it would be more interesting for you to ask questions. I thank you.

COLONEL LACKAS: We are prepared to receive your questions now.

QUESTION: Sir, I know that it is politically unwise to add to the budget anything that increases potential taxation. One of the recent administration speakers seemed to think that we should add an item to the budget to offset annually on a fixed basis the public debt. In view of the interest that we are paying, can you give any reasons other than the political aspects for not including each year in the budget a specific amount to be applied to the Federal debt?

MR. BRUNDAGE: Well, the intent is to balance the budget first, so that we will be able to take care of all of our current expenditures and not increase the debt. I hope that eventually, if we can keep up the present trend, we will be able to put something aside every year. Senator Byrd is very anxious to have us include a definite amount in the budget.

But in corporate accounting you don't usually include the reduction of debt in your ordinary operating statement. You have your receipts and expenditures, and debt reduction is shown in your application of funds statement. In other words, in business, you have a certain amount of depreciation, which doesn't represent cash outlay, you have a certain amount of profit left over after your current dividends are paid. And those two amounts are your cash resources that can be applied either to a reduction of debt or to an increase in your capital expenditures or an increase in your working capital.

We have the same idea but without a fund statement in the Federal budget. We do produce a statement indicating what surplus we expect to have and another showing how we expect to apply it. We just do not include the reduction in debt as an expenditure, or an increase in borrowing as a receipt.

QUESTION: What opportunity, if any, is afforded an incoming administration between the date of the election and next January to recap the budget in the light of its divergences with the outgoing administration?

MR. BRUNDAGE: I would assume that the President would do what President Truman did and invite the proposed appointee of the new President to come in and work with the Bureau of the Budget. I know that Joe Dodge, who was selected by President Eisenhower on his election to be his new Budget Director, came down to Washington late in November, and all the figures were made available to him. It would probably be impossible for the Budget Director designate to incorporate his concepts in the actual budget document, but he would be able to work on it and be familiar with it, so that adjustments could be made within the next few months. There would then be a saving of at least two months time.

We benefited from such a procedure. The present administration went over the 1954 budget which had been submitted by President Truman in January, 1953 very carefully and the actual obligational authority enacted was about \$9 billion less than the proposed budget.

QUESTION: We are going through a period now in which we have to develop new airplanes and new missiles sometimes for the same mission or for unforeseen aspects of a missile. At the same time both these items are increasing in cost constantly. I fail to see how we can finance these expenditures with a reduction in our national security expenditures of \$10 billion. Would you care to comment on that?

MR. BRUNDAGE: A reduction of \$10 billion, you say?

QUESTION: From 1953 to 1957 there is a reduction of \$10 billion in our national security expenditures.

MR. BRUNDAGE: I haven't heard of any further reduction of \$10 billion proposed. You mean you fail to see how we can hold it at the present level? Is that what you mean?

QUESTION: No. The expenditures included in the balanced budget, which came about by a reduction in our military expenditures. I don't see how we can do this with the increasing costs.

MR. BRUNDAGE: You mean how you could continue to reduce it? Or do you mean, to carry it at the present level?

QUESTION: Carry it at the present level.

MR. BRUNDAGE: I think it can only be accomplished by more efficient operation, by changes. If you have a wing of B-52's, which is now composed of 45 planes, with a destructive power enormously greater than a wing of B-36's of 30 planes, which we thought was the latest word and the most devastating thing when they were first put in operation a few years ago, I think that you can adjust some of your other plans. I think that is the only way in which it could be accomplished. I think it's the way in which you've got to accomplish it. The same way, if you have a submarine with atomic power that can keep going for three months without refueling and can contain atomic devices for attack on other ships or even on land bases, it seems to me that we don't need as many of the old submarines, which were smaller in size, didn't have the capacity, and nothing like the destructive force or evading ability.

QUESTION: In view of the difficulty in getting the budget together and getting it through Congress, and the desirability of having a longer period of effective time for the application of any given budget, have you given any thought on trying to sell Congress on the idea of a biennial budget for the duration of a given Congress? I know that Congress would not want to commit itself for what a future Congress might have to live with, but for two years at least perhaps they could agree on a program. Would you speak along that line?

MR. BRUNDAGE: Well, we might try. There is no harm in experimenting.

Personally, I am very strongly in favor of at least a four-year budget. I think any business that attempts to plan only a year ahead is doomed to failure. I think most businesses have at least a ten-year forecast and a five-year forecast. And I think the President feels that way. I have heard him say so. That is why he has asked the Joint Chiefs to come up with long-range plans.

I would like to see at least a more definite forecast made. I personally don't see why Congress wouldn't be willing to give contract authority, at least, if we could get our appropriations on the expenditure basis, on the basis of a five-year program.

That is one of the objections which Congressman Taber has raised, because he foresees a desire to get a longer-range commitment. But I don't see how we can operate in this day and age without a more definite commitment. I would like to see a lot more flexibility too. I would like to see each of the services and each of the main programs have some more flexibility than they have now in their authority.

World conditions change awfully fast. The State Department, for instance, has an international contingency fund, which is always used up in about three months; and I think they ought to have more flexibility. I would like to see the Atomic Energy Commission have a little more flexibility. They have a fund for entertainment of \$15,000. When they want to do something with visiting scientists, however, they generally have to dip into their own pocket in order to pay expenditures.

I think that many of the members of Congress have a false sense of getting control by requiring all of the detailed justifications which they do now. I personally don't think they have any better control when they say: "I want to know how many typewriters this department wants" and if you ask for 16,000, they say: "No. You can have only 15,000." They have no way of knowing whether it ought to be 10,000 or 20,000 for the most efficient operation. I think you have to do it by programs. I think you have to do it with more flexibility in order to get the most efficient operation.

QUESTION: I have heard that social security revenue or intake is being used to defray current expenses. Would you comment on that?

MR. BRUNDAGE: No, it can't. The social security income goes into a trust fund which is used only to pay social benefits.

It does appear--you may be misled by this--in what we call the cash budget. You will find in this document a separate statement of what they call the cash budget. It is chart 2, page 13. That includes all the receipts from the public, including social security payments, and payroll deductions. The payments to the public include the benefits paid out. But that is just to give the effect that the total financial

operations of the Federal Government have on the economy. As a matter of fact, the social security taxes go directly in a trust fund. The trust fund reserves are invested in Government securities. Like other borrowing, these securities constitute part of the public debt.

QUESTION: I am confused, sir, on the functions of the Office of the Coordinator of Public Works and the regular budgetary functions in regard to civil works and related matters. Could you explain that, please?

MR. BRUNDAGE: Are you referring to General Bragdon?

QUESTION: Yes.

MR. BRUNDAGE: I think the concept of General Bragdon's office is somewhat like what I was describing earlier. He thinks that we should have a long-range plan both for Federal expenditures and for State and local expenditures. He is looking at it as a long-range program and is building up figures for the total needs of the communities for waterworks, irrigation, roads, schools--for long-range projects of all kinds. He has no specific responsibility for the budget, but we work very closely with him. One of our representatives attends his meetings and discussions and all of his planning sessions. So we do try to adapt to his desires as he receives them from all the different departments and agencies, and also coordinate them with the programs of the States and municipalities.

I think it is intended both to give a better idea of what we need and where we are going, but also as to timing; so we don't find that just when the Federal Government is starting an important new post or defense location, the State Government is also planning to build a new commercial airport in the same place, and the municipalities are planning to build schools and highways, so that there is a conflict and unnecessary competition for construction labor and materials. I think it is primarily a programming function.

QUESTION: I believe we are all familiar with this custom of all the executive departments running and scrambling to spend their money before it expires. What sort of impact does that have on the budget and on the economy? Is there any way in which we can smooth that out a little bit?

MR. BRUNDAGE: We have been trying to do it. I think the whole apportionment process is intended to spread obligations out over the year. Last year, and this year too, we have tried to make available the funds that were necessary, so they could be obligated on a regular pattern.

I think the general tendency is, after they get their money, to then sort of sit back and say: "Well, now, let's see. Could we spend it a little more effectively for something else which we hadn't thought about?" and to sort of delay. Then it comes along to May and June, and they have to rush and obligate for fear they will lose it. It's this practice you are referring to, isn't it?

QUESTION: Yes.

MR. BRUNDAGE: We are trying to counteract that.

QUESTION: Mr. Brundage, assuming that we could reduce our national debt by whatever amount you wish, let's say you got it down to zero over a period of time, do you have any idea as to what would be the optimum amount to which we could cut down the money available to the country through Government borrowing? Do you have any comment on any particular optimum figure for the debt?

MR. BRUNDAGE: I would be surprised if we were likely to get the debt down below \$200 billion. I think if we could reduce it to \$200 billion over the next ten or fifteen years, we would accomplish quite a lot.

I am not in sympathy with the Keyserling philosophy that it's bad business to retire your debt; that you ought to keep borrowing; and that for your country to expand, you must always be going into debt. I am not in favor of that at all. But I do think that in times of depression it is perfectly good policy and sound planning to then go into debt a little, to expand your public works programs and the long-range projects which you have to put aside when you are working on more urgent immediate needs.

So I would be prepared, if we could, to budget a reduction of a billion dollars or more each year in our debt. Until we get some kind of international agreement which might enable us to make more substantial reductions in our defense expenditures, I would think that if we can make a token reduction every year in our national debt, we would be doing very well.

I wouldn't feel too badly if within the next ten years, if we had some kind of recession, we would have to increase it a little. I don't believe we can keep on going up indefinitely. I think that all activities in life have their ups and downs. Some days we feel better than others. Some days the sun shines and some days it doesn't. So I expect to see that there will be modifications in our economy. I don't think we are going to have a big depression again. I think we have learned a lot from that. But I think there will be times when we may want to increase our debt. I hope it won't be within the next two or three years; and I don't think it ought to be when our economy is operating at this very high level. I think we should be making reductions in our debt now.

QUESTION: What is the role of the Bureau of the Budget in supervising the spending of the departments? Would you care to comment on that?

MR. BRUNDAGE: We don't supervise the spending of the departments. We go over their budget requests very carefully, and we try to appraise them and question them. We are supposed by our very duties to look with skepticism on any new requirements and to inquire diligently why they can't cut out some of their current programs which were adopted as emergency measures. It is that kind of approach until the budget is presented. Then, after it is acted on by Congress, we try to apportion it evenly, so it won't be spent in the first few months and so that the agencies will not end up without any money before the end of the year. Of course, we ask questions about needs and about timing of expenditure in the execution of the budget too, but the responsibility for the expenditure lies with each agency.

QUESTION: Following up the last question, we were given the impression the other day that they are planning in the Bureau of the Budget to step more into the supervision of the spending of the various departments, in financial control, not exactly like the Comptroller General does, but very similar, for the various departments. I think perhaps that is what the previous questioner had in mind.

MR. BRUNDAGE: No. I don't think that is being planned at all. What we are planning in accounting is to try to get better management reports, so that the individual services and the individual departments will get better control over their expenditures. We aren't trying to get it. We are merely trying to help you develop accounting systems which will give you better control, better management. No, God forbid. I'm not looking for anything like that.

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QUESTION: With respect to the new Federal highway programs being undertaken, we note that they are using a trust fund system of financing. Why was that selected rather than going into the usual business of Treasury receipts versus general expenditures? Why did they set up a unique system of handling it there?

MR. BRUNDAGE: This was a compromise between the original administration proposal that we charge tolls, or issue revenue bonds which would be secured by tolls--the system which has been followed so successfully up to date for through roads. Most of the toll bonds which have enabled the building of our throughways, our toll roads, to date have been secured by a pledge of the charges made. Proposals were made along that line and considered, but turned down by Congress.

But Congress did approve raising the gasoline taxes, and having all of the current Federal gasoline taxes and some special excise taxes on tires and accessories deposited in a trust fund from which the grants to States will be withdrawn. We are estimating that the deposits in the trust fund this next year will be about \$1,500 million, and that the disbursements from that trust fund will be \$1,150 million. So that eventually the expenditures will increase. But I believe it is provided in the legislation that the expenditures out of the fund cannot exceed the deposits in the fund.

It is a part of the general pay-as-you-go theory; and the more you can itemize your receipts to special purposes, the more the expenditures are limited by the particular receipts.

COLONEL LACKAS: Mr. Brundage, on behalf of the college I want to express our thanks to you for leaving your very busy office and coming down here to discuss this very complicated problem.

MR. BRUNDAGE: I enjoyed it very much.

(28 Feb 1957--3, 750)B/ljt