# THE FEDERAL BUDGET

4 November 1958

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## NOTICE


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Honorable Maurice H. Stans, Director of the Bureau of the Budget, was born in Shakopee, Minnesota, 22 March 1908. He received his college education at Northwestern and Columbia Universities and holds an LL.D. degree conferred in 1953 by Illinois Wesleyan University. He holds the degree of Certified Public Accountant from eight States. He was formerly executive partner in the accounting firm of Alexander Grant and Company. In 1953 he served on a task force for the House Appropriations Committee reviewing the FY 1954, Federal budget. Thereafter, for more than a year he participated in a special study of the postal fiscal system and accounting practices for the Postmaster General. In September 1957 he joined the Bureau of the Budget, and became Deputy Director of the Bureau. On 18 March 1958, he received his present appointment. He is a past president of the American Institute of Certified Public Accountants and a member of the National Association of Cost Accountants, the American Accounting Association, and the Federal Government Accountants Association. This is his first lecture at the Industrial College.

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ADMIRAL CLARK: Perhaps the most important single document prepared annually by the Government is the Federal budget. Being the basic financial plan for the operation of the whole Government, its size and its shape very literally affect every man, woman, and child in the country, and we who are in the national security business have a very vital interest in, and many of us have had and will have a very direct responsibility for, the formulation of our Federal budget.

Quite obviously, the translation of the enormous number and the endless variety of requirements of our whole Government into a workable and coherent financial plan is one of the most demanding and difficult tasks that face any official in or out of Government.

We are therefore not only fortunate in having the Director of the Bureau of the Budget himself here this morning but we are most sincerely grateful to him for taking the time out from his heavy and demanding schedule to come here to speak to us.

So it is with a sense of gratitude as well as an honor and a pleasure that I introduce the Director of the Bureau of the Budget, the Honorable Maurice H. Stans. Mr. Stans.

MR. STANS: Admiral Clark, Officers and Students of the Industrial College, and Guests: I think it goes without saying that we all know that a large part of the Federal budget goes to the Armed Forces of the United States, to the Department of Defense.

I can't imagine anything more important to draw me from my office than an opportunity to talk to you gentlemen about the Feoeral budget, how the budget works, what the current situation is, what the problems of the moment are, and how we propose to deal with them.

I suppose I may be accused of some frankness in the course of this discussion, and if I am frank I assure you that it is an attempt to be as objective as I can in dealing with one of the most perplexing problems that this country has at this time. I will go back to that later, but first, I understand that I am expected to tell you something about the mechanics of the budget, how the budget system evolved, and how it works, and then we'll get down to the problems of November 1958.

It is almost inconceivable that until 1921 there wasn't a budget system in the Federal Government. Believe it or not, all of the agencies and departments of the Government decided unilaterally how much money they wanted, sent their requirements over to the Treasury Department, and they were bundled up in a file without any editing, review, or anything else and sent up to the Congress. I am always a little bit reluctant to tell or remind people in the Government of that fact, because I am afraid that some of them would like to go back to that old system. Anyway, one man in the Treasury Department did the whole job, collecting these figures and sending them to the Congress, so you can imagine how much consideration was given under that system to program content, to the question of duplication between agencies, or to the amount of money requested.

It was Congress' job to figure out what to do with the budget, and to balance it against revenue expectations.

Well, we got into World War I and our level of spending increased and there came a consciousness of the need for a budget system. We got that in the Budget and Accounting Act of 1921, and I guess it was none too soon, because today our expenditures of the Government are just about 100 times as great as they were before we entered into World War I.

The Budget and Accounting Act, which is still the foundation of our budgetary system, placed the responsibility for proposing the annual budget on the President, and to aid him in that it created a Bureau of the Budget and a budgetary procedure to give an overall picture of the situation. And, incidentally, it provided not only the mechanics of the arithmetic and the review process but a vehicle for program integration across the Government and better management planning and control of the finances overall.

In 1939, after 18 years of experience, the President expanded the responsibility of the Bureau of the Budget to take on legislative clearance for all of the executive branch agencies, to avoid possible conflicts of point of view, and to force integration of viewpoints on legislative matters between the agencies. He gave the Bureau the responsibility for organization and management in the Federal Government and for the coordination of statistical standards and methods.

Since then a few other functions have been added by legislation or otherwise. The Bureau now has responsibility for financial management, for accounting in the Government, and so on.

The Bureau actually is the agency of the Government that more than any other sees everything that goes on across the Government. It is the only arm that the President has to bring about coordination of planning and a matching of the programs of the agencies with the resources of the Government and the resources of the Nation.

So the Bureau has the responsibility not only of assembling the figures and correlating them but the power to revise, to reduce, or to increase the estimates submitted by the agencies.

Now, with that start, we'll take a look at the schedule and the timetable under which we have to work. In March or April of each year, which is about 15 months before the beginning of the fiscal year in question, the Bureau develops basic assumptions, working with the President's economic advisers, as to the economy, and, with the State Department and the military, for basic assumptions on international conditions, and we then discuss the general budgetary outlook with the President.

Then we secure preliminary estimates--order of magnitude estimates, rough approximations--from the largest agencies, the 18 or 20 largest agencies, and we total them and compare them with the revenue estimates that seem pertinent at the moment.

Then we hold discussions with the agency heads concerning their plans, and, after all of that, following discussions with the President, and in the Cabinet, and the National Security Council, we recommend to the President a general course to be followed, and, with his approval or modification, we send a letter to the cabinet departments, usually by 1 July, telling them the size of budget to prepare for the following year.

Then the agencies are expected to submit their detailed, formal budget proposals to the Bureau by 30 September. This is still nine months before the beginning of the year in question. For about 60 days the Bureau holds hearings, one after the other, with all of the agencies, from the largest to the smallest, at which time we go over their programs, reconcile them with the overall picture, ask questions, and consider the individual items from one end to the other.

There is a slight modification, I may tell you, since you are interested in the Defense budget, in that case. The hearings for the armed services are held jointly, and the time factor is the real reason they are held jointly, between the Comptroller of the Defense Department and the

Bureau of the Budget, both questioning, researching, and examining the budget simultaneously, and, I may say, not necessarily always coming out with the same answer.

Then, internally within the Bureau, our own examiners present their recommendations on the budget to the Director, and it is up to the Director to question them searchingly as to the premises and the bases of their ideas as to what the budget ought to look like.

The Director then discusses his conclusions, which are the staff conclusions as he may modify them, with the heads of the agencies. If there are differences that can't be reconciled, it is up to the President to deal with them and resolve them finally for the purpose of his budget.

In December, still seven months before the fiscal period in question, after the Presidential review, when the budget is all ready, it goes to the printer and is then submitted to the Congress shortly after the beginning of the session, in January.

The law requires that the budget be transmitted to the Congress within 15 days after the session begins, which usually means that the budget goes up somewhere between the 15th and 20th of January.

So much for what we in the executive branch propose. From then on it is up to the Congress to dispose, and sometimes they do it in a surprising way. We saw just a little over a year ago an economy-minded Congress slash the budget right and left. We saw this year a spending-minded Congress add to the budget in a great many places.

Congress has six months--seven months, usually--in which to deal with its appropriations. Obviously, the appropriations should be passed by the end of June, but in many instances that is not the case, and action doesn't take place until sometime in July or even in August.

After Congress completes its actions and the bills have been passed into law, they come back to the Bureau of the Budget for what we may call execution. Now, the responsibility for executing the budget lies with the agencies, primarily. It is up to them to allocate the funds to their subdivisions; it is up to them to keep within the amounts allowed by Congress. But the Bureau of the Budget by law comes into the act again because it has the responsibility of apportioning the amounts appropriated by quarters of the fiscal year. I may say that that usually results in annoying either the Congress or the agencies, or both, and it is a rather unpleasant task. They wonder why there should be any restrictions on

the use of their money after it has been appropriated. Well, as I say, it is required by law, and there are some very logical reasons for it when you think about it. The Government has to achieve the most effective and economical use of the funds available, and we have the responsibility by law to prevent the creation of circumstances which automatically lead to the requirement of a supplemental or a deficiency appropriation. So when the budgets are enacted we take a fresh look at the agencies' programs in the light of the modifications by the Congress and in the light of the changes and conditions that have taken place in the period of over a year since we started this process.

We may decide in the course of this to put some of the funds in reserve to provide for contingencies, to recognize savings, to enforce greater efficiency or for other developments of that type. The agencies are not allowed to obligate the amounts that are put in reserve, but the amounts may be released by the Bureau, after further consideration, in whole or in part later on in the fiscal year.

Now, all of that is procedural, and it fulfills my charter as described in the mission that was given to me in talking to you today--the processes of the budget. But I think the current situation is such as to deserve some real discussion and consideration here, and I want to talk to you about just where we are in this budget picture, how we got where we are, and what we propose to do to get out of the predicament.

Well, we are now in the second quarter of the fiscal year 1959, which ends next June, and we expect a deficit of over $12 billion, and, contrary to what you may read in the press, I can give you no assurances that it will be any less than that--it probably will be more when we get to the end of the year. That follows on top of a deficit of about $3 billion in the previous fiscal year. We expected in this fiscal year, when we sent the budget up last January, that we would have revenues of about $74.5 billion, and that expenditures would be about $74 billion, and we would have a $500 million surplus.

I won't go into the details of how anyone could have been so wrong except to point out that this year's budget was prepared shortly after the Sputnik situation, and also while we were in the early stages of a recession which no one was really in a position to measure. But, instead of those figures, we now estimate that our revenues are going to be down about $7 billion from what we had estimated and our expenditures are going to be up more than $5 billion from what we had estimated, and there you have a $12 billion deficit.

That's the largest deficit ever incurred in peacetime in the history of this country. People who have an interest in the affairs of their Government--and that includes certainly all of you here and all alert citizens--are asking us these days, publicly and privately, some pretty searching questions about this deficit and the prospects for the future. People want to know how we "permitted" such a situation to be created and what we anticipate for the next few years. Will the budget be balanced soon, or ever? Will spending keep on increasing? Should taxes be increased, or should they be reduced, as some people are proposing?

Let's discuss for a minute how we got this big deficit. First, on the loss in revenue, there were tax reductions by this last Congress of about $700 million, in the face of the growing deficit, and the rest of the loss is due entirely to lowered tax collection, mostly from corporations, as the result of the short and recent recession.

On the expenditure side, the increase of over $5 billion results largely from the civilian side of the Government program--our increased farm price supports under conditions of bumper crops beyond imagination are pushing our expenditures up more than $2 billion above what we had expected; the Congress enacted housing legislation providing for the purchase of $1 billion worth of mortgages on low-cost homes and other housing measures; we have a higher postal deficit in prospect, despite higher postage rates. There were some antirecession programs--the acceleration of public works projects; Government pay raises for the military and the civilians; some higher defense costs--supplemental appropriations, and so on; and other factors. These added up to over $5 billion and may well be $6 billion in higher spending before we get to the end of the year.

So we have now an estimated spending level for the Government of over $79 billion, and this comes, gentlemen, just a year after we had a tremendous outcry from the people of this country over a budget that exceeded $70 billion in peacetime--up almost $10 billion from that level in the period of one year's time.

Now I think we can get down a little more to some of the cases in which you are interested. Despite the fact that the increases in our spending since January have been largely in nondefense areas, the really important thing about the dimensions of our budget is the overwhelming influence of defense and war-connected spending on the total.

Fifty-two percent of the 1959 budget goes for military functions of the Department of Defense. If you add in mutual security, atomic energy, and the stockpiling of strategic materials, it comes to 60 percent of the budget, and, if we include interest and veterans' programs, then the cost of past wars and the present cold war amounts to 76 percent, or over three-quarters of the budget.

I think those are rather sobering figures.

Now let's talk a little bit about the outlook ahead. Some people have looked at the situation we are in and have predicted that over the next five years we are going to have $60 billion of deficits and a national debt of $ 350 billion. I can assure you that we are not ready to give up that easily, but I can also tell you, as you perhaps know, that the pressures pushing in that direction are mighty, mighty strong. The cold war continues; there are steady demands, steady requests for increased expenditures for the military for deterrent forces, for limited war forces, for other programs; in our military and atomic energy programs there are built-in growth factors from research to development to construction to production, so that programs that begin in one year just naturally necessitate continued and additive expenditures in subsequent years.

The Congress wasn't alone in the pressure for expenditures to relieve the economic recession. There were many moves in the executive branch itself, among the civilian agencies, and those pressures still linger on. There is still a philosophy that spending is a good thing for the country and a rather urgent sense or feeling on the part of many agencies that now is still the time. We had many fantastic proposals for spending and for tax reduction, or both, as the only way to bring back the economy of the country. Even today there are many pessimists who question whether we have the strength in this country, the vitality, without continuous Federal intervention and forced feeding to resume the normal upward growth of this Nation.

Well, I think all is not pessimistic. I think we can take an optimistic view in some respects. Some of the antirecession measures that were enacted last year do not have to be repeated in the face of the economic upturn that is now prevailing. The unemployment insurance program, for one thing, and the extensive purchases of a billion dollars in mortages on small homes, should no longer be necessary. On the other hand, there are some of the measures that were initiated last year--the acceleration of public works projects, construction programs, and so forth--that just perpetuate themselves on higher plateaus, and become very difficult to contain or to reduce.

I think also on the receipts side that economic activity will bring us substantially increased revenues. I am going to give you some figures here with the idea that they are general assumptions at this time and not predictions. I think our economists and our statisticians believe that, if by fiscal year 1961, the country has not only recovered from the recession to its previous level but has regained its place on the normal growth chart of the Nation, we could get back to a level of receipts of close to $ 80 billion. Now, if we could get to $80 billion in revenues in 1961, two fiscal years ahead of where we are, then the question of whether we get to a balanced budget depends upon what we do with expenditures in the meantime. They are at the $80 billion level now. If we can hold them at that level or reduce them we could get to a balanced budget by 1961 or even before. It wouldn't be easy, but it is possible, and it is something that we in the financial side of the Government are giving very serious consideration to now.

I think it is a fact that there is a great deal of concern in financial circles about inflation, about where we are going financially in this country, about possibility of deterioration in the value of the dollar. It is certainly a problem, as I shall try to develop later, that ranks with the problem of national security on the military side, because that kind of situation can lead to the destruction of our security, just as much as neglect of our military resources.

We can get to a balanced budget if the people of the country will exercise restraint on their demands on the Government for new programs, if they will support Administration programs for gradual reduction in spending levels. I must say here in all frankness that, considering the portion of the budget devoted to defense purposes, and the pressures that certainly exist for expanding defense programs, and the opportunities for cutting back some programs without jeopardizing our strength, the restraints and reductions must apply in the defense area as well as in civilian programs if we are going to succeed in facing up to this problem.

In short, the dangers of our present budget imbalance are so great that they just should not be underestimated. We have these facts: In the space of a few short years we have gone from a $ 70 billion budget level to the era of an $ 80 billion budget level without receipts catching up. The fact of the matter is that, on a cash basis, if you take into account payments that go out of the trust funds for highway construction, social security, and many things like that, that don't appear in the $ 80 billion figure, Federal expenditures this year will come close to $ 95 billion or 2.5 times what they were just 10 years ago. The public debt ceiling

is up to $288 billion, and, as I said, we have many debt management problems. If we have a deficit in 1960, then certainly there must be another increase in that debt ceiling.

Individual and business income tax rates are so high that in the opinion of many objectives analysts they are exercising a deterrent on our rate of national growth. There are many proposals for tax reduction. As I have said, the demands for more Government spending are growing, and they are becoming harder to resist.

But, from where I stand, a budget increase of $7 billion in one year in expenditures is a runaway situation. If we were to approve all the persuasive proposals that come to us from the agencies for 1960, in the face of a directive from the President for Spartan economy, we would find ourselves with a budget not of $80 billion but much, much higher. I won't try to pick a budget level that would be catastrophic for the country. I don't think anyone knows where the breaking point is on expenditures in this country. But I think the only guide mark we have, the only landmark by which we can go, is the country's capacity to support expenditures without confiscatory taxes, without an unmanageable debt, without inflationary deficits, and without distortions which throw out of proportion the use of our resources.

The job now, I am sure you all agree, is to get our fiscal affairs in order. Unfortunately, the base of the 1960 budget is set very largely by actions already taken place a year or more earlier in the Congress. There simply isn't the flexibility to reduce the figures very materially. The major problem for 1960 and 1961 boils down very simply to our ability to hold in check the pressures that move upward and forward. That doesn't mean that we will neglect any possibilities for reduction or that our proposals for last year for long-range curtailment will be abandoned.

It may interest you to know that last year in the budget the President submitted to the Congress 16 recommendations for long-range budget reduction. Eight of those received no action; four of them were partially adopted; and four of them were reversed in favor of higher spending programs that substantially wiped out any savings gained by the four that were partially adopted.

So, if you boil it all down, I think the American people have a necessity of facing up to a 5-point program, if you want to call it that, if we are to construct budgets in the next few years on any basis of responsibility.

First, we have to maintain national strength, without hope of any significant reductions in defense costs until a secure understanding with the Soviets is reached, and I am sure we all agree that that kind of understanding can't come overnight. It can come only slowly, step by step, and budget changes can come only slowly in the same degree.

Second, we have to exercise completely Spartan restraint in proposals for new spending for civilian purposes or for increases in the level of any present civilian program.

Third, we have to seek all possible opportunities for gradual, long-term reductions in Federal activities.

Fourth, we have to increase our revenues by reasonable user charges to recover the measurable cost of Government services that are furnished to specific identifiable individuals. I am speaking of things like the postal service, the use of the highways, and so on.

Finally, we have to take all reasonable steps that we can to encourage the growth of our economy in order to increase national revenues and gradually reduce this deficit margin.

If we as a Nation decide to do these things, we can, if we have continued peace, not only avoid tax increases but we can hold out to the people the hope, the prospect, that soon again we will have balanced budgets, we will have tax reductions, and perhaps we will have increases in the programs that are so important for the Nation's civilian welfare.

About 10 days ago Assistant Secretary McNeil was here. He talked to you about some defense needs that are competing for budget funds in the years immediately ahead. After making moderate allowances for some budgetary increases, and after assuming an optimistic economic picture, he thought maybe we could balance the budget by 1962. I think his analysis was wholly sound and I agree with him, but I think we ought to have a better objective than that; I think we ought to try to balance the budget in 1961, and I think we ought not to give up the possibility of balancing it even in 1960.

If we don't assure the people of the country and the people of the world, in fact, that we are facing up to fiscal responsibility, if we keep putting off year after year facing up to the problem of a balanced budget, we may never be able to get the things we plan because we will have kept in motion the forces that cheapen, that eat away, the value of our money.

Now I would like to take another few minutes to talk a little bit about budgeting for the Department of Defense in a little more specific terms but not in terms of individual programs or projects. We all know we are in an era of technological revolution. There have been tremendous changes in the methods of warfare, offensive and defensive, and they are occurring every day. To adapt to these changes is a challenge to every one of us, particularly to the Secretary of Defense, the Joint Chiefs of Staff, and the planners of the entire department.

Not long ago I asked my staff to make an analysis dealing with the nature of the defense budget, and I think the figures are quite interesting and that you would like to hear them. As I said, the budget for the Department of Defense, like those of the other agencies, is put together a year before the fiscal period to which the figures relate. An appropriation is merely an authorization to spend. Spending also has a time-lag factor. So, in planning appropriations to be enacted for any one year, we are planning spending for a period not in that same year but anywhere from 3 to 5 to 10 years ahead, in some cases.

We divided the defense appropriation into four categories; first, those amounts for active duty military personnel. That's the only money that is primarily spent the same year that it is appropriated for. That accounts for about 26 percent of defense spending. Then there are appropriations for operations and maintenance in which spending is divided between the budget year and the year following. That accounts for about 23 percent of the defense total. Then there are appropriations for procurement of weapon systems and for construction of bases. Here we are looking ahead to spending from 3 to 5 years after the budget year. That accounts for 34 percent, or over one-third of the defense budget. And finally there is the money for research, development, test, and evaluation, which results in the delivery of new weapons, and so forth, and this goes in many cases away beyond five years. This amounts to 12 percent of the spending. That leaves another 5 percent for establishment-wise activities, reserve programs, and so forth.

So you can see that the four major segments of the defense appropriations budget for any year are pretty widely separated as to the year of impact on spending. To put it the other way, over half of the military spending this year is the result of decisions made in earlier years, some of them five or more years ago. It is evident that the budget for defense is a pretty complex document when it is examined in relation to this phasing of the money. Of course that is complicated by the fact that it breaks down into the same situation in each of the three services. And each service is promoting its claim for a fair share of the total budget.

Could it be that these complexities in budgeting for defense are what has produced the same percentage distribution to each of the three services year after year? Is it coincidence, or is it compromise, that each of the services gets the same percentage in a period in which vast changes and many new concepts are being woven into strategic and tactical planning of the armed services? In any event, I think we all agree, and I am sure that the Secretary of Defense agrees, that we do need some different approaches to the defense budget problem.

The reorganization of the Defense Department, enacted by the Congress at the urgent insistence of the President, gives us an opportunity, all of us, to think about some new ideas in defense budgetary thinking. The President made a major point about the budget for the Defense Department in his Message to Congress on 3 April of this year. He said that there is need for the Secretary of Defense to have greater authority and flexibility in money matters, both among and within the military departments and that this need was particularly acute in respect to his powers of strategic planning and operational direction. He said that the present method of appropriating all money directly to the services has worked against the unity of the Department of Defense as an executive department of the Government.

The budget for the fiscal year 1960, which will be sent to the Congress next January, I am sure, will contain some major changes that are designed to give effect generally to the recommendations and the wishes of the President. Those changes are under discussion and I can't at this time tell you exactly and precisely what they will be.

Assistant Secretary McNeil, when he talked to you about some of the many factors that are increasing the costs and expenditures for the defense effort, pointed out that for many reasons there would have to be adjustments in the defense appropriations. I recognize that there are many of these factors. I recognize that there are rising costs. These create a problem for any business, particularly a business that is trying to modernize its plant and equipment and adopt new methods and techniques. But, the very fact that a business is modernizing, that an activity is being modernized, means that it is starting to think differently, to try new and different approaches.

I think that that, too, is a necessity for the Department of Defense as well as for a private business. New methods call for increases in cost, but they should lead, on the other hand, to large-scale savings elsewhere. And here lies the problem.

As we move from an old system to a new one, the tendency is to ride both horses. The axiom that a weapon should not be discarded as long as there is a remotely possible use for it seems to have swollen our arsenal of different weapons to tremendous proportions. With the many advances in technology, the budget will soar higher and higher, unless we can make now, this year, some hard choices necessary to keep it within our means.

You gentlemen are a group of selected officers of the armed services, a group that, I am sure, contains many who will move into key positions in the Pentagon, in the unified commands, and in the field generally. What I am saying boils down to two points that I hope, if you forget everything else I have said today, you will retain in your memories and carry away with you and apply in your future participation in military affairs. I think they embrace the highly complex job of planning and programing our defense budget to give us adequate security with a minimum of dollars.

First, we just can't buy everything we'd like to have. What our country needs is a military organization that can be recruited, trained, equipped, and deployed to best carry out the unified military missions of the Defense Department in support of our basic policies at the minimum level of expenditure that will do the job. We must find the means to evaluate and fit weapons programs to their most effective use and perhaps take even some calculated risks on weapons of marginal usefulness and utility. All of this has to be done on an across-the-board basis, without regard to service pride or service traditions.

Second, if we are to survive, we must employ every means possible to eliminate duplication and unnecessary overlap of military mission capability; we must close down excess camps, posts, and stations; and we must wring waste out of the supply and logistic pipeline, wherever it appears. And these things, too, gentlemen, must be done without regard to service sentiment or past practice.

On both of these counts, we have to face up to the necessity of overcoming the pressures generated by vested interests. I am not speaking of the services when I say that; I am speaking of communities, industrial groups, industrial companies, and so on.

Now, for another minute, and no more than that, I would like to go back again to the broad question of why we have to face up to this responsibility, why these economies are necessary, and why the security of the country depends upon them.

Well, first, I could say it's good business, just common sense. The defense budget must be coordinated with overall national security policy, our foreign policy, and our fiscal and economic policies to produce a sound and safe national program. There is a means of coordination of these things through the National Security Council, but its policies and objectives are stated in very broad terms. Not until the agencies have translated these plans into budgets do we see the full fiscal implications. It is only then that the President and his advisers can view and evaluate the major programs in terms of their relative importance.

It is at that point that defense requirements must be brought into harmony with the other parts of the national security program, the non-security programs, and, finally, with our economic and fiscal policies. The President and his advisers must have solid, well conceived, and reasonable estimates for the major programs. It is only common sense to consider that a program that carries an excessive estimate, or is marginal, or is plush, in terms of real fiscal needs, forces out other programs that either have to be cut back or eliminated to the detriment, sometimes, of our total national interest.

To obtain a proper balance in the military and civilian programs requires on both sides that realistic estimates of requirements be made in the first instance.

For the last seven years, and again for the current year, the cost of supporting the military functions of the Department of Defense has run between 52 and 60 percent of our total Government expenditures. If we must maintain a high level of defense spending for the indefinite future--and I am sure we all concede that--then we have to work toward two goals simultaneously: one to build and maintain a worldwide defense system capable of meeting a war threat whenever and wherever it may occur; and the other to foster a sound economic climate which can support the defense program and, in case of emergency, permit its rapid expansion.

It is impossible and it is utterly unrealistic to talk about current problems in terms of purely military judgment, on the one hand, or purely economic judgment, on the other; nor is there any fixed formula for meeting the two goals. Wise actions can result only from a continuing awareness by all of us of the interrelationship which exists between those two goals.

That, I submit, gentlemen, is the responsibility of the armed services, and that, I acknowledge, is the responsibility of the Bureau of the Budget.

Thank you very much.

COLONEL LACKAS: Mr. Stans is now ready for your questions.

QUESTION: Mr. Stans, there has been a good deal of discussion lately about the so-called expenditure budget. I wonder if you would explain how that would operate from a practical standpoint, and also mention some of the benefits from it.

MR. STANS: Yes; I think that's a good question. The Hoover Commission recommended a few years ago that the budget be cast on an accrued expenditure basis as a substitute for the obligation basis. The law passed by Congress went half way. It adopted the accrued expenditure principle but retained the obligation basis as well. It means, boiled down to the very simplest--and I will describe it in terms of another agency rather than Defense, because you have so many complicating and modifying factors--that, in the case of the Post Office Department, they may have an obligational authority of $3 billion, including a Post Office construction program, we'll say, of $200 million. The Congress may decide to limit the rate of spending by providing that their accrued expenditures may not exceed $2.9 billion. In other words, the Post Office can obligate $3 billion, but it can't pay out in the year more than $2.9 billion.

It is an attempt, basically, to get a different hold on a different prong, really, of the budget situation, because of the time lag that exists between the authorization of appropriations, the authorization of spending, and the actual disbursement. The question of whether we have a surplus or a deficit is measured not by what is appropriated but by what actually goes out of the Treasury. When we have a $12 billion deficit this year, it is money out of the till, and the general philosophy is that, if you control the outflow of money out of the till, you get a better control over expenditures than you do in the authorization process where the money goes out over a long period of time and there are opportunities for acceleration or deceleration in the rate of spending.

Mechanically it is much more complex, because the use of the word "accrued" adds a measurable factor beyond that of just the money that goes out of the till. What it implies, in the simplest essence, is this:

that, if the agency has an expenditure limit of $2.9 billion, in the case I mentioned, it can't comply with that expenditure limit by getting all the work done and just not paying the bills until the following year, because it has to add to the $2.9 billion its unpaid bills. In other words, it means that expenditures plus bills on hand equals accrued expenditures, and that is the limit for the particular period.

Have I made that reasonably clear? It is a little bit complex.

QUESTION: Mr. Stans, I ask this question in all candidness. It is felt by many that the Bureau of the Budget is in fact making military decisions in its review process when, in a line item review of hard goods procurement, et cetera, decisions are made on this line item basis, in the selection of weapon systems, in the selection of vehicles, and so forth. Would you care to comment on this, sir?

MR. STANS: I will be very happy to comment on it, because I think the asking and answering of questions like that do an awful lot to clear the air. First of all, the attitude of the Bureau of the Budget toward the Department of Defense, its procedures, its processes, and its approach, is the same as it is in the case of any other agency of the Government. We do not make military decisions. We do not determine war plans. We do not determine the choice of weapons. But we do have this responsibility: to ask questions, to point to inconsistencies, and to raise issues for the Secretary of Defense to determine, and, if we are not satisfied with the answer of the Secretary of Defense, we have the right and the responsibility to take the issue to the President or to the National Security Council.

That's what we do. We do not deny amounts of money. We ask questions about them and we may pursue those questions rather persistently until we are satisfied that the money shall be released, or until the Secretary of Defense is satisfied that we may have a point after all. It is just in the nature of circumstances that we are in a good position to do that.

The Bureau of the Budget, with the exception of a few of us at the top, is peopled by long-time career men who have great capacity and skill. It is not unusual in the course of a period of a year to hear a lot of conflicting comments about this particular mission or that particular weapon, and so forth, or about the need for more of these or for more of those. It is only natural that our questions are directed at pursuing issues of that type that are raised. If they make sense, we pursue them.

I get across my desk every day a number of memorandums relating to similar questions in other departments of the Government. Do we need a 20-year replacement period for merchant ships, or 25 or 30? This question comes up in the Department of Commerce. Is the Post Office Department really saving money on these little 3-wheel vehicles that they are using to deliver mail? Or is that just a mathematical illusion? If they are not saving money, then we question whether they are performing a better service.

The same thing takes place across the whole budget. Our job is to question, to challenge, to see that the fullest consideration is given to all requests. If we are not satisfied with the answer, we take it to the President, and he makes the decision. It is his budget.

QUESTION: Mr. Stans, almost every year, without exception, we seem to generate a hurry-up-and-wait sort of process in our Federal spending by delays of one sort or another in the release of expenditure authority. Would you comment as to what might be causing this and what can be done to eliminate this sort of problem?

MR. STANS: I wish there were an easy answer and I wish that I had preceded Secretary McNeil on this program, because I would like you to ask him the same question. We have the closest working relationships with the Department of Defense, but you must remember that the Defense budget is often appropriated late, as it was this year; that when the Congress changes the figures, there is a mass of detail to be worked through in order to get down to the programs that meet the figures that Congress has given. There is a process of just tremendous examination, inquiry, and paperwork that takes place in the Department of Defense before it comes to us.

We have had discussions with Secretary McNeil this year. I recall a discussion early in September about what he could do to accelerate his processes and what we could do to accelerate ours. We did everything we could. But the real heart of the problem lies in Congress' taking earlier action than it does. If they would appropriate the Defense budget by 30 April or 31 May, or something like that, the apportionments could be made by 1 July or approximately at that point, and we would have no problem.

The real difficulty with the system lies there, because Defense and ourselves work just as fast as we can to get the things on paper and out.

QUESTION: Sir, this may relate to one or two of your off-the-record comments, but I wonder if you would enlarge on the question of the debt reduction, the debt retirement. I thought that perhaps you were going to talk on it, but I didn't catch anything you said about it. Are there any future plans for it, nationally speaking?

MR. STANS: I wish I could give a positive affirmative answer to that question. We have a national debt now of $288 billion. There were a few years in which we had reductions in it, but it seems as though in that subject you run up against one of the most difficult of human psychologies. If the Government has a surplus, what can we do with it? When you consider the three possibilities of reducing taxes, increasing spending, or reducing the debt, the debt reduction always comes out a poor third. To some extent that's the predicament we are in now. We had two years of surplus, $1.6 billion in each year, and the money went to reduce the debt. I think the mere fact that there was a surplus created a great many temptations for a great many people--we'll say present company excepted--across the Government to develop programs that would use some of that surplus.

Did you have a further question on that?

STUDENT: You just answered it, but I would like to pursue it if I may. I am just wondering whether this doesn't have a direct cause of the apparent trend toward the downgrading of our credit, indicated by the comments you made earlier, nationally and internationally, and whether or not if we could get the word to the people in such a manner as to make them understand what they are faced with the populace of the country would not in fact support such a program.

MR. STANS: You are absolutely right. Many times I wish I had the time to just go across the country for a couple of months and talk to associations and groups of people, talk to more people like you here in this group, to spell out some of the pretty simple, elementary facts of life. We are dealing with very elementary conditions here. We are dealing, as I say, with somewhat narrow human psychology. We get it every year in the general reaction across the country that we should have more economy in Government. Everybody is for economy in Government. In Chicago last week, when the President was out there, a delegation of businessmen appealed to him. They said, "Mr. President, we've got to have economy in Government. We've got to have less spending. The only thing we are interested in is that $200 million program for our river development." That's the case every time.

Organizations like the NAM, the chamber of commerce, and others, try to whip up people for economy in Government, and they are for it. That's the shotgun type of approach. The people who want spending want it for something specific and particular. They want it for hospitals; they want it for medical research; they want it for a new Post Office building; they want it for better prisons, and that sort of thing. That's a rifle approach. And that carries the impact on the Congress. The pressures are generated for a specific program and that goes through, while the pressures for economy, such as they are, are dissipated over the whole broad range, and they don't succeed.

That's why I think that it is going to be extremely difficult to ever see a reduction of our national debt. People just want so many things. As I said to the admiral and the other officers before I came in here, there is nothing unique in that. In the world of business--and I presume some of you have associations with the world of business--there never was a corporate treasurer who set up a budget that satisfied at the same time the sales department, the engineering department, the production department, and the executives, I assure you. There just never is enough to go around.

QUESTION: Mr. Stans, this may be in pursuance of this same item a little bit. We have been told by certain of our economists that have spoken to us here that we can go on indefinitely on a deficit financing program. I wonder if you would like to comment. I know you don't agree with it, at least if I interpret your talk correctly.

MR. STANS: Well, it gets back in a way to what I said in my talk. I don't think anybody feels that there is anything positive in the way of a limit to the amount of spending this country can afford. I don't know if the line can be drawn at $80 billion, $90 billion, or $100 billion. Some people have said the country can afford what it needs. That would be true if we could rely, again, on simple arithmetic, because the resources of the country are great. But, unfortunately, we, as a people--and I am in an area which is not financial now--are easily swayed. We get stampeded. If there is a recession, we stampede; if there is a boom, we stampede; if the stock market goes up, we all buy; if the stock market goes down, we all sell. The same thing is true in the general area of the psychology of the people in dealing with these financial problems. It is unfortunate, but that is a fact of life. I think we have to cope with it.

QUESTION: I have two questions. The first is: Will you comment please, on the relationship between yourself and the General Accounting

Office? Second: On this rifle approach you mentioned, how effective is your own management analysis function within the Bureau of the Budget?

MR. STANS: Well, I will answer the first. Then I probably ought to ask you the second question. You must have a reason for asking it. General Accounting Office, (GAO) is an arm of the Congress. We are in the executive branch. GAO really has a mistitle. It ought to be the Office of the Auditor General, rather than of the Comptroller General. It performs the function of an Auditor General for the Congress. Its job is to determine, basically, whether the monies appropriated by the Congress are properly spent and spent for valuable, adequate consideration.

They do have other incidental functions. They participate in the program for improvement of accounting in Government. They do make recommendations for improvement in systems and methods, and so forth. But that's their area.

We collaborate with them a great deal in areas of improvement, but we have no direct dealings with them other than that. Our job is the budget process, as I mentioned, the financial improvement program, management and organization, statistics, and legislative coordination.

I guess I may answer that second question in a very honest way, and I am perfectly willing to take my hair down and make some confessions. I do this without any intent of reflecting upon any of my predecessors, because we have budget problems, too. The Office of Management and Organization in the Bureau consists of about 40 or 45 people, some of whom are clerical and some of whom are professional. They have among their responsibilities some continuing detail responsibilities, unfortunately, which are governmentwide, but can't be put anywhere else. They include such things as the business of controlling travel regulations and travel allowances, and some personnel matters, and some property disposal matters, and so forth. The rest of their time is devoted to organization and management efforts across the Government. In the organizational field they spend a great deal of time assisting the President's Committee on Government Organization. They spend a considerable amount of time on 2 or 3 reorganization plans that took place last year. They have a substantial project list for improvement of management in a good many agencies and for dealing with governmentwide programs.

I think this activity is now inadequate. I am engaged in a considerable number of studies and discussions to try to figure out some way of changing the functions of the office from one dealing with a lot of routine responsibilities to one that would in effect provide a management engineering firm within the Government, dealing solely with responsibilities outside the Bureau and in the agencies, in helping them to improve their management.

At a time like this it is difficult to make the transition; at a time when money is scarce it is difficult to add people. All I can do is to give you that explanation of the program and then put myself in line with the Department of Defense and the others for more money to see if I can do anything about it.

QUESTION: A book that is currently popular makes the point pretty strongly that, left to himself, the average citizen doesn't forego his TV set to put a piece of electronic gear in a military vehicle or his automobile in order to buy a piece of a school, and that we won't make these choices until they are forced on us; that the seriousness of our position vis-a-vis Russia will be determined only when we put on them the necessity of making some of these less attractive choices. Will you comment on this line of thought?

MR. STANS: Yes, I'll be happy to. I think my answer goes back to the President's Oklahoma City speech about a year ago. He made one speech before Sputnik and one after, in which he said that we might again have to get to the point of choosing between guns and butter. Here again comes the general attitude of the people into play in a big way. The American people arise to an emergency. They will not get excited about anything very much short of an emergency, and it is very difficult, apparently, to convince them that the kind of things you mention constitute emergencies. They deal with them slowly. We gradually get our schools built. They will vote down a bond issue or two and then they will finally get around to voting for one to build a school. They will make these choices very reluctantly and slowly. Maybe in some respects that is a good idea, after all, because it prevents the extremists from running too far wild.

In the very broad situation, that again of choosing between guns and butter, we have so far had little success. I speak not only of the executive branch but also of the Congress. Last year the increases in spending for civilian programs were far greater than the increases in spending for the military.

Unfortunately, the political atmosphere feeds on itself, and, until the people are exercised to the point of almost a mild revolution, the points of view that the leaders know are necessary don't get across, and aren't acted on in the way that they should be.

It's one of the frustrations of the Presidency. I am sure it's one of the frustrations of leadership anywhere, that, what you know simply and plainly to be a fact, what you know simply and plainly to be a necessity, isn't recognized by the great mass of the people who have the capacity, really, to make the decision.

We all know that if an atomic bomb landed in the center of the United States tomorrow, as we were attacked in Pearl Harbor in 1941, the American people would move with complete unity and unanimity to meet the crisis and give up anything it was necessary to give up. But in the meantime there is always the feeling that the crisis, the stringency, the emergency that these fellows in Washington are talking about applies to the other fellow, and until they come to me I am going to go on and do the best I can the way I am now.

In other words, people just don't volunteer, they just don't willingly give up anything, they just don't willingly sacrifice unless they are convinced that the necessity is nationwide and that the necessity is one of preservation of security. Then we are a terrific country; we are invincible, because we do act with unanimity.

COLONEL LACKAS: Mr. Stans, you have provided us with an insight and an appreciation of the complexities and the significance of the fiscal problems of our Government. We sincerely thank you, sir.

MR. STANS: Thank you very much.

(9 Jan 1959--4,225) O/mas:bbn