DISCUSSION OF THE WAR DEPARTMENT BUDGET IN WAR

Following Lecture, "War Department Participation in the President's Budget"

by

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Colonel Phillipson:

With reference to the following discussion on the Budget in War, it must be clearly understood that I am expressing my own ideas and not enunciating approved principles. I know of no co-ordinated plan which has been developed in this connection although the matter has been informally discussed for several years. Actually, mobilization and war plans have not, as a rule, reached the stage where the formulation of supporting financial programs was necessary. In discussing this subject previously both at the War College and here, I have dismissed the issue with a few passing remarks.

At the present time, the Mobilization Plan, 1933 has developed to the point where consideration of the financial requirements is essential. Individual opinion differs as to the procedure advisable. It is apparent to anyone familiar with the essentials of war-time financing that peace-time methods are not applicable. The time element involved in the complicated peace-time procedure precludes its utilization in war. Briefly, the peace-time method is to combine approved branch estimates in a single document which is scrutinized in the minutest detail in the War Department, the Bureau of the Budget, and Congress. In my opinion, this synthetic arrangement would be inapplicable under war conditions.

Among the important principles that should guide our fiscal arrangements in war, the following stand out:

Military operations should be facilitated without interference.

Simplicity and expedition are essential in methods.

Funds should be estimated for in a coordinated and orderly manner so that they will be made available as and when required.

Interrelated estimates should be coordinated sufficiently to eliminate overlap, conflict and excessive waste.

Efficient financing demands that anticipated rates of withdrawal from the Treasury be calculated as accurately as possible.

Financial programs should cover periods of sufficient duration to assure uninterrupted development of military resources.

Prompt, equitable and regulated distribution of funds required for obligation by spending agencies should be assured.

In general, these principles require no elaboration here. All agree to the necessity of avoiding interference with military operations. This is the outcome which military men fear. I feel that this antipathy is based principally on the assumption that the War Budget will follow the lines of peace-time procedure. This, of course, is not the purpose. In peace time, the principal effort of the War Department agencies concerned with building the budget is to direct as large a part of the funds as is possible to preparation for emergency and field training. Despite this earnest effort, approximately 80 per cent of the funds carried in the current Act are for the maintenance of the Military Establishment and 20 per cent for actual preparation for war. In war, the major share of the cost would be that pertaining directly to combat.

The importance of simplicity and expedition is obvious. To assure these, it is important that there be a comprehensive fiscal plan worked out in advance as far as practicable. With such a plan available, there should be little difficulty in convincing the President and Congress of the necessity for the funds required at each stage of the war or of assuring the distribution of funds to spending agencies as fast as they require them. The ordinary causes of delay in peace-time financing could be largely eliminated and supply agencies could devote practically all their time to more essential tasks.

Past wars have in general been accompanied by much confusion, excessive waste and useless overlap. An appreciable part of such defects could be eliminated if all features of advanced planning

were diligently scrutinized by some continuing qualified agency familiar with fiscal and operating difficulties involved. At the same time, an opportunity would be afforded to test the plans from the fiscal viewpoint. The dollar is an accurate unit of measure and when it is utilized as the common denominator to which related estimates are reduced, any overlaps or waste are readily discernible.

By rates of withdrawal I mean the rate at which obligated funds are actually paid out over the counters of the Treasury. The ability of the Government to finance the war is a basic consideration which can not be disregarded. I do not say that a war can not be fought without money. You have only to remember the Confederacy or the Revolution to negative that contention. A nation in arms could, perhaps, through the exchange of services and materials, fight without using money except as it was required in international transaction. However, the wars which we are contemplating presuppose the use of money as a medium of exchange, and, accordingly, the role of money can not be ignored. The extent to which the Government can safely increase the national debt without destruction from within is an important factor. As I remember, the national debt of the United States increased approximately 25 billion dollars incidental to the World War. Recently it has been again increasing with the end not yet in sight. Even were the Government able to adequately finance the undertaking, it is essential that those responsible for raising the funds should know at the outset the amounts required at various times in order that financing may be placed on a sound, orderly and economical basis.

The decision as to the length of time for which initial financial programs are to be computed must be decided. The Mobilization Plan, 1933, is in accord with the following:

> "1. e. The Budget Officer for the War Department shall be charged with the preparation of estimates, by appropriations and projects, of the funds required under each war plan to meet the fiscal requirements of the War Department during the first ninety days of mobilization. These estimates, based upon approved requirements, shall be kept up-to-date and in form for prompt submission to Congress."

Ninety days is entirely too brief a period for financial planning for a major war. During the first three months procurement of

supplies is just getting under way. The peak loads might come a year later. We should have the estimates cover sufficient periods to permit the carrying out of at least the initial phases of the war. Colonel Harris has suggested in a general mobilization a period of at least two years and I am entirely in sympathy with his viewpoint.

In distributing funds to spending agencies, the primary requisite is that it be so regulated that it meets their requirements promptly, equitably and in a regulated manner. As Colonel Jordan has aptly stated, the Budget in War should be a service. We try to make it one in peace but fiscal limitations sometimes transform a valuable servant into a harsh master. A properly regulated War Budget should obviate the necessity for any concern on the part of estimating agencies regarding the availability of funds once they have justified their branch plan to the appropriate agency.

As a preliminary step in creating this war budget agency, I would suggest that the Budget Officer for the War Department be empowered to utilize the assistance of a Fiscal War Planning Committee consisting of six members appointed by the Secretary of War from the following agencies:

Office of The Assistant Secretary of War
(Planning Branch)

Budget & Legislative Planning Branch, G.S.
(Ex-officio Chairman)

War Plans Division, G.S.

Supply Division, G.S. (Supply Branch)

Office of the Budget Officer for the War
Department

This Committee should study and report on the problems of war financing and proposed War Department procedure in keeping with the principles previously enunciated.

The first problem which would confront this Committee would be a determination of the appropriate procedure for a War Budget and the form and scope of information required to effect

this procedure. I feel certain that the war bill proposed will bear little resemblance to the Annual Act. All hampering restrictions would disappear. Lump sum appropriations would be sought and a program for distribution formulated. Hearings would undoubtedly be necessary to develop the plans on which estimates are based. Financial programs would require constant revisions. A War Planning Section in each of the agencies represented might well result. I could go much further into my conception of possible ramifications, but do not believe that this would serve any useful purpose here.

Colonel Jordan:

Colonel Phillipson has promised to answer any questions which may be propounded to him, but I am not going to ask the class first to ask questions. I want to hear from representatives of the various services who are here on this plan. Colonel Phillipson has brought out what, in my mind, is most important. His function at this time is one which bears down upon the wants of the services and arms and cuts them down to fit into a limiting figure. In other words, he becomes a function of economy. In war time the committee or the organism or whatever is developed which will pass on those things, should become a committee of service. In other words, what he enunciated is that they shall furnish the money when and where it is needed; in the same way as it is the function of G-4 to see that supplies are laid down when and where the people in the field need supplies. I would appreciate it a great deal if the members of the services here would aid us in this discussion. Colonel Higley, will you say something in this matter?

Colonel Higley:

I doubt very much that I have any ideas to offer here which would amplify what Colonel Phillipson has said. I am in agreement entirely with the principles and the scheme that he has indicated, and the duties that would be before any committee that might be appointed to draft the war budget. As he stated, and as I can see it, it would be an organization almost entirely of coordination - coordination first with the original plans to see that it provided for the equipment, supplies, etc. of the plan. Then, it would have to be coordinated with procurement to see whether or not supplies could be procured at the rate which the ideal plan sets down. In that connection undoubtedly the requirements, maybe of the Marine Corps, would have to be taken into consideration, and undoubtedly the procurement rate is

going to be the basic or controlling factor. In other words, the ideal rate of procurement based on money will not stand in all cases. In many cases it will have to be reduced in order to meet the possible rate of procurement. Then there is the further coordination between services which will be working on the same or interlocking activities. For example, the Air Corps, the Signal Corps, the Ordnance Department, and the Quartermaster Corps are all involved; and an order for airplanes requires munitions - ammunition, guns, armor, radios, gasoline, etc., and they have all got to be coordinated as to time - time of delivery. As to the agencies which could do this I have only very hazy ideas. I agree with Colonel Phillipson that the different departments of the War Department which are interested should be represented. I think that is about all I can give that would be in any way new, Colonel. They are my own ideas.

Colonel Jordan:

Thank you very much. Colonel Chaffee, would you care to say something?

Colonel Chaffee:

My chief has spoken, Colonel, so I have little to add. It does seem that with the way things are right now, possibly since the matter is getting so "hot," it may fall to me to have something to do with the execution of it in the next two or three years. I am delighted for the first time to see a mobilization plan brought to the point where its cost can really be computed, and so that the Government may have some advance notice on tap, should an emergency break, of the extent to which financing would be necessary. I think this is a vast and most important step the War Department is contemplating, and I think the basic principles of getting at it, as Colonel Phillipson has outlined them to this assemblage are certainly sound so far. Lord knows what we will get into when we really try to work them out; but somebody must be able to go to Congress and say we want money at such and such a rate if we are going to meet this emergency, and the very fact that we can say that in advance will assure them that the War Department's Mobilization Plan or the Color Plan has really been war-gamed, as Colonel Phillipson said, from the point of view of the resources of the country.

Colonel Jordan:

Thank you. Colonel Harris?

Colonel Harris:

I have been very much interested in Colonel Phillipson's discussion this morning, particularly with reference to a fiscal planning policy. I do not consider that any war plan is complete until the fiscal phases of it have likewise been completed. There will be as many problems and as many causes for delay as there were in the last war. I feel that one of the contributing causes for delay was the lack of a fiscal policy, lack of a plan to be able to tell Congress what was needed in the way of money in the War Department. I would like to give an example of fiscal planning - or the lack of it. When I was before the Nye Committee I was asked this question: What will the industrial phase of the next war cost in the first year? I did not know as our plan does not cover that. I did a little quick thinking - I thought of what we spent in the last war. Twenty-five billions were spent in a total of nineteen months - from that I made a quick estimate that the industrial phase of the next war for one year would cost four billion dollars. I feel that our plan should contain information to cover the fiscal phase of this thing. It ought to cover the phases of operation in the next war, what contact would be made with Congress - the most important part in coordination with Congress. I support everything Colonel Phillipson has said, both as to principles and method of starting. It is very important.

Colonel Jordan:

Thank you. Colonel McFarland?

Colonel McFarland:

I observe that all comments have been made on a war budget - not any remarks on peace. I think that indicates that our greatest interest is in war, as it should be, although the peace-time budget is an important feature of our War Department organization. One of the first principles Colonel Phillipson states is that of simplicity. In war planning that principle of simplicity, applied to strategic, financial, or industrial

planning, always impresses me as the first one with which to start. It is my recollection that prior to the Budget Act of 1921, and in the financial arrangements for the World War, procuring agencies went directly to a committee of Congress with their estimates. In war, then, if that policy were followed, it would have some good points of simplicity. The General Staff would furnish to the procuring agencies a list of the items to be procured; the procuring agencies would formulate their lists of costs and take them directly to Congress and ask Congress to appropriate the money necessary. Of course that arrangement would lack the necessary coordination that is required in order to get a good financial statement before Congress and to get it there quickly and properly. It seems to me that the suggestion Colonel Phillipson has made of having the Fiscal Committee supervised by the Budget Officer of the War Department is a very proper and simple solution of that problem.

Colonel Jordan:

Thank you Colonel McFarland. Does the class desire to ask any questions of Colonel Phillipson? He will answer them.

Colonel McFarland:

I would like to ask one. Getting off the war questions and back to the peace-time situations, I think it would be very interesting to know what considerations led to the abandonment of the old system of presenting estimates to Congress and the adoption of the new; that is, what basic arguments are behind the Budget Act of 1921, particularly as they would apply to the War Department?

Colonel Phillipson:

This question had been coming up for a great many years - the question of a national budget was ever present. The reason it had not been settled prior to the World War was that the question of raising money was not a very great problem - the national debt was small, the national resources were very great, and the national income presented no immediate problem. I think the thing that forced the issue was the war. The national debt went from two billion dollars to twenty-seven billion dollars. All the arguments put forth before suddenly came home. There were a great many objections to the old system. As Colonel McFarland said, different agencies submitted estimates, not in a coordinated War Department document but as separate bills. The War Department alone had several bills - a

Fortifications Bill, the Military Academy Bill, etc - there was no coordination among them except through the Secretary of War and that was negligible. Each agency was asking for all it could. The estimates were simply compiled in the Treasury Department, placed in the Book of Estimates, sent to Congress and assigned to appropriate Committees. Those affecting the Military Establishment went to three or four Committees. There was no coordination anywhere along the line. I think it was the war that forced this coordination on the Government, which it had been planning for several years. They did not want to do it any more than you want to go on a personal budget. It is not a pleasant thing to do. Most budgets become the master instead of the servant. You might have to walk to work for a few days because you did not have enough money for carfare. I think a similar feeling existed in the Government. The heavy expenditures of the war forced it on us.

Colonel Jordan:

Colonel Phillipson the class is paying you the greatest compliment it has paid any speaker. You have covered the subject so fully and so well that they have nothing to ask you, sir.