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BUDGET AND FISCAL ACTIVITIES, WORLD WAR I TO THE PRESENT  
5 January 1948

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COLONEL MCKENZIE: Captain Worthington and gentlemen: On one or two occasions in the past there has been some misunderstanding as to these courses that are given in the vertical manner, that is, where we have lectures that seemingly do not fit right into the subject that we are discussing. In order that there will be no confusion this morning as to this series of three lectures covering finance, I want to take just a minute to tell you that our lecture this morning by Colonel McCulloch will be on the subject of "Budget and Fiscal Activities, World War I to the Present;" in other words, a general subject covering activities of a financial nature. That is to be followed later on with a lecture by Brigadier General Eugene Foster, who will talk about financial aids to war suppliers. Thirdly, we will have a lecture by Mr. Wilfred J. McNeil, of Mr. Forrestal's office, who will talk about the question of the budget, fiscal, and financial organization for the Department of National Defense, in the field of planning.

We feel that these three lectures are hardly adequate to cover the field of finance; but in consideration of the time and the fact that we don't want to get into committee problems on the subject of finance with your class, we are going to hope that these three will cover the necessary background for the year in order for you to work on your economic and industrial mobilization plans toward the end of the year. It is felt also that they will be of great help to you in the particular subject of purchase and procurement planning on which you are about to engage half of the class.

Without any further remarks on my part, then, we will have the first of these lectures by Colonel McCulloch this morning.

COLONEL McCULLOCH: Gentlemen, I went into Colonel McKenzie's office this morning specifically to get him up here to give this preliminary introduction. I returned from my Christmas leave expecting to find the subject of discussion as an "Historical Presentation of Budget and Fiscal Activities from World War I to the Present," and found that I was faced with the over-all subject of "Finance," which is about as big as creation itself.

Finance officers, of course, have a general reputation of sticking their noses into everyone else's business. I thought the first and most intelligent thing I could do would be to build a fence around this subject so I could break it down and, at least, present a limited subject which I might be capable of discussing and which you gentlemen, I am sure, can in the course of forty-five minutes fully understand.

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First, on the matter of "Public Finance." We have had a week's course by a Yale professor, who has very ably gone over public finance. There is no necessity of my repeating anything he said. Public finance is actually a responsibility of the Treasury Department.

Next, by way of definition, "War Finance." War finance must be divorced from routine public finance because, in effect, its financial arrangements are effected during a frenzy period. Nobody particularly cares about financial control. Funds are not important. The thing that is important is winning the war. About all the people engaged in finance activities can do is to hope to heaven that the accounting procedures are adequate.

This can, of course, produce situations which may eventually become untenable. We cannot disregard funds entirely. There is a considerable body of scholars who feel that the "boom and bust" cycles which on occasion rock the very foundations of our economy are caused entirely by frenzy wartime financing. Actually, they make a rather effective case for this theory.

I have selected at random three statistical items. Chart I indicates certain budget deficiencies. I have picked out 1936 as the first year. If you recall, the depression started in 1929. We began to run into a deficit in 1932. By 1933 Mr. Roosevelt had it well on its way. From 1933 until 1946 we continued to run on deficit financing.

## CHART I. BUDGET DEFICIT

1938	\$ 2,400,000,000
1939	3,900,000,000
1940	3,800,000,000
1941	10,200,000,000
1942	39,600,000,000
1943	53,500,000,000
1944	52,700,000,000
1945	44,500,000,000
1946	4,200,000,000

Now, as to military expenditures.--Relative to these expenditures the Military Establishment normally got on with 500 million dollars a year or something less. (Chart II) During the war our record of expending is remarkable. In 1943 we got up to \$42,265,000,000; in 1944 to \$49,242,000,000 and in 1945 to \$50,337,000,000.

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CHART II. EXPENDITURES--MILITARY ESTABLISHMENT

1938-1940--average--\$	500,000,000
1943	42,265,000,000
1944	49,242,000,000
1945	50,337,000,000

Chart III is the one of most importance. At the start of the Civil War we had a 90-million dollar national debt. At the close of the Civil War it was 2 billion, 6 hundred million. From 1865 to 1917 we held the debt fairly steady, although the economy of the country was greatly increased. In 1917 it was 2 billion, 9 hundred million. At the close of World War I it was 25 billion dollars. At the start of World War II it was 43 billion, and at the close of World War II it was 279 billion dollars.

CHART III. NATIONAL DEBT

1861--start of Civil War--\$	90,600,000
1865--close of Civil War--	2,678,000,000
1917--start World War I --	2,975,000,000
1919--close World War I --	25,485,000,000
1940--start World War II--	43,000,000,000
1946--close World War II--	279,000,000,000

There are many theories on national debt, relative to what a nation can stand. Mr. Knorr in his recent lecture covered the routine rules and regulations of financing most adequately. There was one thing he neglected to say and that was, we can afford to support a national debt of any proportion provided the country is confident that we can eventually repay the amount owed.

There is here, as in all sciences, an expression in the science of economics to cover this theory. It is the so-called "Velocity-of-Circulation." I would like you to visualize a pipe full of water one foot in diameter. We can control the size of the pipe very simply. We can increase or we can decrease the diameter. That corresponds roughly to the amount of money in circulation. We can take money out of circulation, or we can put money into circulation.

On the other hand, there is another and even more important factor relating to the flow of water through a pipe, and that is the speed of flow. So long as the public is confident that their dollar is worth roughly, say, fifty cents today, and they are not too anxious to get the new automobile or the new house at any expense, we are relatively safe. But, as you recall from the panic which started in 1929, public psychology can change

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overnight, and the simplest thing can set off a public panic. It is not my contention, but the contention of people who know, that a debt of this magnitude represents a real danger.

I was interested in reading a report of this school submitted in November 1940, wherein the students' conclusions were that, within the next four or five years, our expenditures for military purposes would probably approximate 75 billion dollars. Their next conclusion was that, inasmuch as the national debt was then 80 billion dollars, we could ill afford to increase it and we must raise the money to cover the military expenditures by increased taxation. Who would have thought that in 1945 we would be faced with a debt of 279 billion dollars?

The main thing I want to point out is that, so long as we have such a public debt, the situation may become critical. It might even result in a change in our political philosophy, in due course.

So far as my plan of presentation is concerned, I am going to stick strictly to the organizational setup of the War Department as it relates to securing funds, spending funds, and accounting for funds. I am going to take the liberty of introducing the Case Method in this presentation. I will take one or two significant appropriation bills that were under consideration at the beginning of the war and try to show why the Industrial Mobilization Plan was not applied in figuring our financial requirements for World War II.

At the end of World War I we were not completely satisfied with the way the Army and Navy had functioned, so we immediately began a series of congressional hearings on possible improvements. This resulted in the Reorganization Act signed 4 June 1920. This Reorganization Act covered the Organization of the Army, the National Guard, and the Reserve Corps. It set up and prescribed the duties of the General Staff, somewhat along the lines of the German Army. It prescribed certain changes in Courts-Martial procedure, which had been found to be inadequate. It established a number of new departments in the Army. Among those new departments was the Finance Department, which is of interest to you in this discussion, because the Chief of Finance was appointed the Budget and Fiscal Officer for the War Department in the following year.

There was a second act passed 10 June 1921, the Budget and Accounting Act. Up to that time money had been appropriated without regard to receipts. It was decided that some businesslike procedure must be adopted by our Government unless we were going completely defunct.

The Budget and Accounting Act of 10 June 1921, required the President of the United States to submit at each opening session of Congress, at the beginning of each calendar year, his annual budget. In this week, at the

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convening of Congress on Wednesday, he will present his State of the Union message. That message primarily concerns plans covering anticipated budgetary requirements. The actual Budget will come up for presentation on the following day. Then on Friday there will be a lot of mourning in the public press about the amount of money required to operate the Government the next year.

The Budget and Accounting Act of 10 June 1921, also established the General Accounting Office. That is the Office of the Comptroller General. This office is a creature of Congress, designed so that Congress may have more control over the expenditure of public funds.

It established the Bureau of the Budget, first, as a Bureau of the Treasury Department. Later the Bureau of the Budget was made a part of the Executive Office of the President.

The Act also required the appointment of a department budget officer in each Federal department. Section 214 of this Act read: "The head of each department and establishment shall designate an official thereof as budget officer therefor, who, in each year under his direction and on or before a date fixed by him, shall prepare the departmental estimates." As I said, the Chief of Finance was appointed the Budget and Fiscal Officer for the War Department. In the Navy they had a separate office established in the Office of the Secretary of the Navy, filled very ably by Captain Allen for a number of years.

I am taking my examples from the Army and the Air Force side because they cover the largest amount of funds. Actually, the Chief of Finance never did operate as the Budget and Fiscal Officer for the War Department. He maintained the accounts; but there was set up in the department, for the consideration of the Army and Air Corps estimates, a so-called Budget and Legislative Planning Branch of the General Staff. Its primary function was to go over, very carefully, the requests and justifications for funds as they were submitted each year. I would like to touch on the mechanics of the preparation of these estimates. This is a matter of extreme importance to all of us.

First, the Bureau of the Budget, about eighteen months before the time the budget is due to be presented, calls on each Federal department for a statement of its estimates for the fiscal year under consideration. On receipt of this call in the War Department the Budget and Fiscal Officer of the War Department then goes to the Chief of Staff and says, "We are required to prepare estimates for the Fiscal Year 1950," let us say. "What are the plans for the Fiscal Year 1950?"

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The Chief of Staff has been considering these plans in anticipation of the requirement. The plans are prepared, written up, and sent to the Budget and Fiscal Officer of the War Department, who mimeographs them, including the directions of the Bureau of the Budget, with respect to method of preparation of estimates, and broadcasts them to the field.

Estimates are prepared by the chiefs of the technical services, or they were, following World War I, with a few exceptions. More recently they have been requiring the major commands--the Army, the numbered Air Forces, and the Air Force commands--independently to prepare their own estimates. This is on the theory that it is just as important for a commanding officer to have his funds, to administer them, and to account for them, in time of peace, as it is for him to be able to have his personnel and his supplies and place them strategically and use them to the best advantage in time of war. If the commanding officer is to be assigned responsibility, he necessarily must be assigned the funds; and, by the same token, he must be given an opportunity to defend his statement of requirements before investigating committees in the War Department.

These requests for funds are broken down into so-called appropriation titles. For example, in the Army we have funds for "Signal Service of the Army," "Quartermaster Service, Army." These appropriation titles, in turn, are broken down into sub-appropriation titles; as, for example, "Regular supplies," "Clothing and equipage," and "Subsistence." These, in turn, are broken down into projects; which, in turn, are broken down into sub-projects; which, in turn, are broken down into objective classifications.

It is not necessary to remember that nomenclature. The only thing you need to remember is that these funds are set up in certain little categories, in baskets, you might say. These baskets correspond roughly to the organization charts of the organizations for which money is being appropriated, responsibility being assigned in each instance to some individual for the proper accounting of funds supplied.

The most important thing, and the basic idea I want to get across today, is the fact that requests for appropriated funds must be completely justified. Since I have been at this school we have heard a number of speakers talk about preliminary plans on procurement; preliminary plans on personnel; preliminary plans on a number of things. Those preliminary plans are matters of extreme importance. The primary purpose in the preparation and utilization of preliminary plans, whether they be plans for peacetime years or mobilization plans, is, it seems to me, for use in the preparation of adequate justifications.

Requests for funds, and limitations, which, as I will explain in a few minutes, are placed on the amount of funds available, require constant and automatic consideration of all such plans. I believe it has been

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amply demonstrated in the late war that; unless those plans are things in being; unless they are vital and alive; unless the people who are working with them are aware of all the details; and, unless they are sufficiently implemented, the justification is not worth a presentation.

Justifications are prepared in writing. They also are supplemented by appearances of witnesses before appropriate committees. I have heard heard Army personnel, including Air Corps personnel, say, "Well, Congress doesn't understand this thing. Those men just don't get it. I feel I have done my job. I have done everything I can, but I can't put it across. I haven't sold it to the Bureau of the Budget. It cut the project out. It doesn't realize the importance of this to all of us."

Well, one way of looking at it is that the Bureau of the Budget and Congress have just as much responsibility to insure the national defense of the country as we have. However, on the other hand, it seems to me that that is our primary responsibility and, if we can't get our plans across, it is not the fault of the Bureau of the Budget. It is not the fault of the congressional committees. It is our own fault. If our justifications are good enough, the funds will be forthcoming.

The mere fact that any officer of any service may be called before any investigating committee to discuss any phase of any plan for which he is responsible is sufficient reason for all of us to keep currently advised not only on plans in being, concerning the routine peacetime operations, but, as I will attempt to point out later, far more important, any industrial mobilization plan that might be prepared.

The mechanics of the hearings.--The hearings are held in general before the Budget Advisory Committee of the War Department, which is a committee set up by the Chief of Staff, chairmanned by the Chief of the Budget Legislative Planning Branch. They are also held before the Bureau of the Budget and before House committees and Senate committees. As I have already indicated, in some cases field commanders are called in to justify their requests for funds.

The hearing before the Budget Advisory Committee of the War Department considers usually two things: first, the financial request and second, the justifications as they relate to War Department plans. They have the plans available to them. They check the requests by the Quartermaster for clothing and equipage, for example, and ask, "Is it in accord with the number of personnel set up by the Army for the year in question? Are the Prices correct? Are the Requests adequate?" Next and equally important, "Is the request authorized by enabling legislation?" I think I had better cover this point briefly.

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The language that is written into an appropriation bill is just as much a part of the law of the land as any other law. On occasions we have had chairmen of appropriations committees who, by their vigor and foresight, have threatened to take over the operation of the Government, because they controlled the purse strings. So other members of Congress reasoned, "The only way we can protect ourselves against the Appropriations Committee taking over the operation of the Government is to require so-called enabling legislation before money can be appropriated."

As a result the Appropriations Committee can now appropriate money, but not until Congress has first authorized it by enabling legislation. They have set up various Armed Forces Committees in the House and the Senate for the consideration of this so-called enabling legislation. Sometimes, in time of stress, this arrangement is ignored; but it is quite important, it seems to me, to have a single office controlling both the legislation requested by the department as well as the appropriations requested, in order to insure, in each case, that the language of the two are coordinated.

The next point is this.--Since the passage of the Reorganization Act of this year there has been established as a top priority item the Budget Office of the Department of National Defense. To my mind there is no office that has been established by the Federal Government in recent years that is potentially more important than this one.

This office must establish, it seems to me, a definite field of primary interest as a first priority. At the present time, it is in the planning stage only. Mr. Wilfred J. McNeil has been appointed as the Budget Officer, Department of National Defense. I, for one, am anxious to hear what he has in mind with respect to plans that will provide the maximum of national defense for the Army, Navy, and Air Force at a minimum of cost. That office is the proper place to do the job. At the present time they have conducted no hearings nor have they published any plans covering subsequent hearings.

The next hearing in the usual routine is before the Bureau of the Budget. The Bureau of the Budget is broken down into a series of budget examiners, who run over the estimates in great detail. They may call any witnesses they desire at any phase of the hearing. They may make any recommendations they want, subject to the approval of the President of the United States.

The most important phase in the consideration of the requests for funds occurs in the Bureau of the Budget. These examiners usually cover the same type of requests year after year. They know much about the Army plans, and it is at this office that justifications must be presented in greatest detail. Bureau of the Budget recommendations are approved by the President and are published as the annual Budget of the United States.

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This action completes the consideration of the budget from the executive point of view. As I indicated, in the first week in January the President goes up to Congress and gives his message on the State of the Union. The next day the budget requests are presented to Congress.

The hearings are initiated in the House. Appropriation bills always originate on the House side. The theory is that the Senate, being the older and wiser and serving a six-year term as compared with a two-year term for the representatives, is in a better position to provide a check on the House of Representatives, which in some ways might be considered as a bit irresponsible in considering appropriations from a national point of view.

The House hearings follow along the same general line, with one possible exception. At this point political implications enter the picture. You will find that local considerations, in the minds of many of the people who are considering the bill, are just as important as national considerations.

The House hearings are published in the form of a book, which I will show you in just a moment. The bill, when it is passed, is published by the House. It then goes to the Senate and through the same process, except that the Senate usually will review only the controversial points in the bill.

Any differences that exist between the House bill and the Senate bill are referred to a joint committee. By the time the joint committee makes up its mind as to what it wants to do and the bill finally gets through Congress and to the President for signature, it is already after the first of July and we are operating on a deficit. But that is the way the job is done.

Now, you would think that after you have the money, the control is over, but this is not true. They turn the funds over to the Treasury Department, which issues war warrants. Time will not permit me go through this process in detail. There is only point I want to make, with respect to handling of funds, and that is the function of the Comptroller as opposed to the function of the Treasurer.

In any type of business organization there is usually a board of directors. A standard board of directors might be composed of the chairman of the board; the vice president in charge of sales; the one in charge of production, and others. One member of the board will be known as the comptroller.

At a meeting of the board of directors the vice president in charge of sales might have a good idea for sales of the product, but it will cost money. At the same time, the man in charge of production might have an idea whereby, if you spend a million dollars, you can cut the price of the product considerably. The comptroller is the chap who controls the purse strings. He must not be subject to any of the other individuals on the board with the

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possible exception of the chairman. He has to make his decision as to whether it would be wiser to spend the money on advertising, on sales, or on production, from the point of view of the amount of money available. The same thing applies in the Army to the so-called Fiscal Officer.

Now, the Budget and Fiscal Officer is not the Finance Officer. The financial officer is the Treasurer. The Treasurer just grinds out checks or makes cash payments to cover obligations. The Fiscal Officer has the records relating to the amount of money that is available; the amount that has been committed; the amount that has been obligated; and, the amount that has been expended.

Some definitions are in order.

Commitments.--A commitment is defined as an agreement between two or more individuals in the same service or business that a certain amount of money will be spent for a prescribed purpose. It may be visualized as an agreement between the vice president in charge of sales in a corporation and the comptroller that, "We will spend a hundred thousand dollars for this purpose." Nothing has been spent as yet. The money has just been earmarked.

Obligations.--Obligations are incurred when a contract is signed. Then the money is definitely gone.

Expenditures.--The expenditures are effected when the contract is completed and the treasurer has received the request for payment.

Where should the comptroller's function be organized in the Military Establishment? Prior to World War I, the functions of the purchasing and contracting officer and the comptroller and the treasurer were all contained in the office of the purchasing and contracting officer, which is about as wrong as any organization could be. It would seem logical that in no case should the purchasing and contracting officer also have control of the funds. Common sense in accounting should require connivance between at least two people before you can spend money wrongfully. To put the money and the power to purchase in the hands of the same individual always makes it very simple for someone to go wrong.

The next type of organization is to set up your purchasing and contracting officer in one office and to set up your fiscal officer as a second office to maintain your accounts. Then you must set up your treasurer independently to pay your accounts. In this type of organization you have three separate officers. That is the logical way to do it, except that there might possibly be a waste of manpower and technical skill, certainly in peacetime.

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Another type of organization is to consolidate the functions of the comptroller and the treasurer in a single office. That, it seems to me, is probably the most logical thing to do. It saves manpower, and it permits the maintenance of all pertinent records in a single office.

I was amused the other day when an Air Corps officer pointed out that in his organization the Finance Officer was placed under the Purchasing and Contracting Officer. That is one way of doing it; but I would hate to be a treasurer and go to the Purchasing and Contracting officer and tell him, "I don't think this bill is proper and I don't want to pay it," if he were my immediate superior.

I am going to take up my case now.

A good time to start this case is on Armistice Day, 1939. Armistice Day, 1939, was a holiday in the city of Washington, although there was a "phoney war" going on and had been going on in Europe for some time. The Germans were effectively stopped at the Maginot Line. Everybody felt rather comfortable. The military appropriation for the Fiscal Year 1941 had been up for consideration for almost a year. Armistice Day, 11 November 1939, was the last day of the Bureau of the Budget hearing. The Bureau of the Budget kept open on that day and heard General Marshall testify.

This bill was presented when Congress convened in January of 1940 and the House hearings were begun 23 February 1940, in the amount of 800 million dollars. I have gone over to the library and procured the House Hearings. This book contains 911 pages of discussion and conversation concerning requested funds in the amount of 800 million dollars.

Now, what did they talk about here in this nice, thick book? They talked about the pay of flight surgeons. Should it be 50 percent of their base pay or should it be a maximum of \$760 a year? They talked about the necessity of constructing a new Army Medical library in the City of Washington, D. C. They talked about administrative promotions of deserving departmental employees. There was one witness, Mrs. Noble Newport Potts, President of the National Patriotic Council, who talked about the food that was given CMTC students. It really was done very effectively. Everything was under control.

This bill, as I have stated, was in the amount of 800 million dollars. Various offices had been considering it for a year. Finally, the house cut it down to 785 million dollars and passed this bill on 4 April 1940.

The Senate got to work on it. Hearings started on 30 April 1940. The situation was still quite normal all over the world. The hearings were going along all right. They got up here to page 376, when on 10 May 1940, a most unexpected thing happened. The Germans invaded the Low-Lands.

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That, gentlemen, was the day the war effort really began in the United States. Senator Thomas, who was conducting the hearings, was told by General Marshall that immediate drastic action was necessary. The Senate Appropriations Committee said, in effect, "You go back and prepare your supplemental estimates and come up and give them to us." General Marshall said, "Fine. That I will do."

So he immediately went to the White House and advised the President of what he had been directed to do. The President properly said, "Well, the War Department is not fighting the war alone. The war is being fought by the United States Government. The Department of Agriculture, the Department of Commerce--everyone is involved, in the face of this current threat."

If you recall, Mr. Roosevelt went on the radio on May seventeenth, a week later. And, in that one week, we in the War Department had prepared an initial supplementary estimate in the amount of 732 million dollars. We nearly doubled our original estimate in a week.

Under normal conditions that supplementary estimate of 732 million dollars would, it seems to me, cause considerable consternation. However, starting on page 377 of the Senate Hearings, we find most of the copy relates to the formal written submission of the supplemental estimate. Then, on page 404, General Marshall came up and made a short statement; and, gentlemen, that closed the hearings.

This bill, passed by the Senate, was submitted to the House the following week. The hearings were opened by Mr. Snyder, Chairman of the Committee, saying: "General Marshall, we have before us the Military Establishment appropriation bill for 1941, with Senate amendments, which is quite a bit different from the measure the House passed on April 4." General Marshall said "Yes" and that he would like to make a statement. He proceeded to make his statement. That occurred on page 1.

On page 4 Mr. Joe Starnes, of Alabama, stopped General Marshall and said, "General, may I ask you a few questions for the record? The amount that is asked for here, the increased amount over the 1941 estimate, is the amount that you think is reasonable, that may be spent within the time allotted here?"

General Marshall said, "That is the amount that I thought was the reasonable amount some three weeks ago."

At the beginning of page 5 Mr. Starnes said: "Mr. Chairman, under the circumstances, and with the absolutely confidential information which the general has disclosed to us so clearly and frankly, I cannot see any need of extended hearings before this committee. I know that the general's time at this moment is precious, and I think we ought to go on to conference immediat

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And that ended the hearings so far as the committee was concerned-- on page 5.

But there were certain other considerations that cannot be neglected. The initial hearing occurred on 29 May but the additional testimony ran along on 30 May and even extended one additional day, on 31 May. I am not quoting the following to poke fun at anyone. It is a matter of record and is indicative of political considerations. At this point, a legislator asked that the hearing be held open for one additional statement. He was a member of the House. By this time, mind you, the Germans had gotten well down into France and the situation was really acute. I quote from the Hearings:

"I am sure it is unnecessary for me to call the attention of your committee to the fact that there is an unusual amount of fifth-column activities, spies, traitors, and other brands of dangerous scallawags now operating within the borders of Mexico in the south. Members of this committee know that Communist and Nazi leaders for the past few years and especially for the past several months have been making some inroads in Mexico. I have no thought of alarming this committee and yet I want to remind you, Mr. Chairman, and each member of your committee that in case of a threatened armed invasion of our own beloved America, possibly one of our most vulnerable spots is across the unprotected Rio Grande border," and on and on. Then he concluded with this paragraph:

"In conclusion let me say that I feel that time is the essence in this whole preparedness program. We must not dillydally and delay as France and England and other nations have done. I am enthusiastically supporting the President's billion-dollar program which I understand is coming up in Congress this week and hope that this additional preparedness program will enable the War Department to establish several additional air bases and I am going to insist that at least one of these bases be established in Oklahoma."

This bill was followed within the next two weeks by the so-called Munitions Program of 30 June 1940. If there was any relation between the information contained in the industrial mobilization program approved in 1939 and the justifications submitted on 30 June 1940, it was fortuitous only. And, during the remainder of the year there were seven supplementary appropriation bills submitted; each one covered only one phase of the program. There were no coordinated, carefully considered estimates presented covering an over-all, planned effort.

I do have one theory which I must take time to mention, if you will pardon me. The Industrial Mobilization Plan, which had been prepared so meticulously over a 25-year period, was kept thoroughly locked up in a safe. Once each year they dragged it out; shook the dust off of it; gave

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everybody a chance to read it, if they could understand it; and, then they rolled it up and locked it in the safe again.

There was nothing vital, there was nothing alive, to it. I give you my word of honor that I have spend an entire morning reading and re-reading the same page, and wondering what in the world I had read.

I would like to be presumptuous enough to mention one other thing, relating to enabling legislation.

Since the war we have, in the National Defense Establishment, sponsored three pieces of legislation. I am not considering legislation about the retirement of officers or increased pay or things of that nature, but legislation relating to national defense as such. Let us talk about that for a moment.

First, the draft.--There was a demand after the war that the boys be home by Christmas. That is all right if they had continued the draft. We all know what happened to that particular piece of legislation.

The second one related to compulsory military training. Three years have passed and nothing has been done. It is a matter of extreme importance, it seems to me, if we are to maintain the respectable defensive posture that President Washington indicated, long years ago, as necessary.

The third relates to reorganization. It was most unfortunate, regardless of any views we might have on the subject, that there should have been public controversy about that plan. Of course, in outline form this new law is somewhat comparable to the reorganization act passed after World War I.

Our batting average in requesting and defending legislation is not too good; that brings me to a few conclusions.

It sometimes looks like we were right back where we were twenty-odd years ago. Certainly the political phase of the situation has not materially improved. Our economic situation, as exemplified by the public debt, has not materially improved. Threats from other powers have not materially improved. Therefore, it seems, that our best answer is to improve our defense structure

We can achieve this thing, I believe, by supporting the Reorganization Bill to the fullest. I was extremely interested in reading the statement made by the Secretary of Defense before the Senate Special Committee to Investigate the National Defense Program. Copies of this have been furnished all personnel in the school. I urge that each person in the school read and re-read this item. Mr. Forrestal makes eleven points, all of extreme importance, it seems to me.

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The last paragraph is especially interesting. He said: "In retrospect it is the broad lessons that we have learned from World War II that are significant. The National Security Act of 1947 gives us the best machinery that the country has ever had for securing our defense. It establishes the National Security Council for advising the President on the coordination of our foreign, domestic and military policies. It establishes the National Security Resources Board for advising the President on the preparation of our national resources. It properly establishes the role of the Military Establishment and provides for the coordination of the Army, Navy and Air Force, not only through the Secretary of Defense but also through the Munitions Board, the Research and Development Board, and the Joint Chiefs of Staff. Through the entire structure provided by the Act, the necessary mechanisms can be developed for applying the lessons of World War II."

He says the necessary mechanisms can be developed for applying the lessons of World War II. It is also a matter of extreme importance that we should provide the mechanism of national defense at a minimum of cost.

Possibly the Budget Officer of the Department of National Defense is the logical place for a detailed, continuing consideration of our plans. Proper consideration will be a painful thing. It will cut across tradition. It will cut across personal ambitions. I do believe, though, that we have a responsibility to do this reorganization job properly, especially in face of this inordinately high public debt. After all, our loyalty to our country transcends our loyalty, not only to ourselves, but the loyalty that we owe to any individual component of any organization to which we happen to belong.

It is a rather sobering thought to realize that this school is the acme of professional training in this most important subject. It should sober you to think that the Government has selected you and me as the people to prepare the industrial plan on which our entire economy may depend in the event of another war. It seems to me, the future of our country might well rest on our success or failure in meeting those assigned responsibilities. Thank you.

COLONEL MCKENZIE: I think I read just a few days ago that the cost of the Military Establishment, plus the fixed cost of the debt service on this enormously large figure that we see here, plus veterans' benefits comprise about 70 percent of the Federal budget today. We can talk to our friends who are continually impressed with the fact that they are short of money to do what they think they have to do or should do; but all of us are aware of the fact that we are still living on a lot of the fat that was left over after the late war. All of us would like to see our pay increased. The civilians and the military are hopeful for some help in that direction.

I know that nobody likes to listen to threats, but we all know there is going to be a drive for economy. Really you can't cut the interest rates that you are paying on our debt. You have the problem of veterans' benefits

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that you can't renege on. So it doesn't take very much foresight to see just where we stand with respect to continued large amounts being appropriated for the Military Establishment.

Colonel McCulloch, I hope you will excuse me if I criticize your speech this morning, but I would like to suggest that you disproved your statement in your case that when Congress didn't give us money it was because it hadn't been fairly presented or hadn't been completely presented. Would you care to make any statement at this time on how the military is going to be able to defend its position and get funds in the year 1948 with the world being faced with these other factors that stand in the background, when in 1940 we had to go through the most painful processes. Do you still labor the point that when we don't get money for the Military Establishment it is because it has not been completely presented by the Military Establishment?

COLONEL McCULLOCH: A proper presentation of our plan to the public is the responsibility of the military, it seems to me, which is not to be denied. There have been some solutions proposed by lecturers in the War College. One said he thought that some method should be provided wherein, if there was a difference of opinion existing between the Navy Department, for example, and the Bureau of the Budget as to the adequacy of any appropriation, they would be permitted to go out and advise the public.

Well, that probably is not the solution. Once the funds are approved or disapproved by the Bureau of the Budget, it then becomes the Program of the President; and witnesses for any of the Federal departments are forbidden to defend any amounts other than those which have been approved by the Chief Executive.

I don't know what the answer is.

The point I was trying to make is, that from now on out, we are going to be in the most severe competitive situation that we have ever experienced in obtaining public funds. We are going, for example, to compete with the Veterans Bureau and they can always make a pretty good case. We are going to compete with the Marshall Plan. Either the money will go for one thing or it will go for another. There will be only a certain amount available.

The point I am trying to make is that we will have to present the strongest case possible. I believe, personally, that the Budget Officer of the Department of National Defense will have to coordinate with the public relations personnel to the end that these requests will not be considered as restricted information. After all, we have been more hamstrung by peacetime security restrictions than anything else. What is the sense of having a mobilization plan and writing it up beautifully and then sticking it in a safe? If the Plan is really vital and alive, it affects our everyday life. I don't believe most of the security provisions are worth the time to enforce them. Let the public know what is going on.

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QUESTION: Your idea of justifications was very well taken. I have two things in mind. Would you care to extend what you mean by justifications? For instance, sometimes we are told to go up and make a speech. We don't anticipate a lot of these questions. Do you feel that if we have to go up before a congressional committee, we have to go to great length on very minor details? That is one question.

The other question is this: Would you mind commenting on the attitude of mistrust which apparently exists between the Bureau of the Budget and the War and Navy Departments to such an extent that the Bureau of the Budget has now developed what some of us call a Gestapo?

COLONEL McCULLOCH: Answering your first question, the solution might be termed "intellectual honesty." It seems to me that the one man who did more for national defense in the late war than any other is General Marshall. He made himself constantly available, not only to committees, but to any member of Congress who wanted to hear him. He objectively explained every point in every program that anyone asked him about, to the limit of his ability. If he couldn't do it, he admitted that fact and said he would furnish the information for the record. He probably spent more time on that one thing than on anything else.

I believe the answer to your query is a complete and thorough knowledge of the plans that are up for consideration, and also, an appreciation of the limitations of the plans.

Another thing is that witnesses come up unprepared to defend an item in detail. There is nothing more damning than to have a witness appear and, when you ask him some specific question relative to some point, he tries to muddle through when he doesn't know the answers. That usually results in wiping out the request regardless of how important it is.

Now, with respect to the adoption of Gestapo tactics by the Bureau of the Budget, I believe honestly that the Bureau of the Budget is attempting to do a thoroughly good job. In the past it has not always been the policy of the War Department to send top men up to defend items before the Bureau of the Budget. In many cases, there have been statements made that can't be supported. In many instances, the Bureau of the Budget may have felt that justifications were not properly supported.

Probably if the Bureau of the Budget does actually get into operations its representatives will have to be brought back into line. I don't agree with the theory that it should send representatives into our camps to investigate our conduct of routine business after funds are appropriated. That is the function of the Comptroller General. I think the present situation will correct itself in the natural course of events.

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QUESTION: Colonel McKenzie took up one point about justification in getting money. The point that I want to bring up now is this: I don't think any plans or justifications are worth much, because topside can say, "You get so much. Now make plans for that."

COLONEL McCULLOCH: One of the things I said was that your plans must be complete and they must be flexible. There is nothing more distressing than to prepare justifications for funds, based on proper plans, and when you have reached the amounts you think are adequate, to have the reviewing agency say, "Well, you are good. I can't knock down any of your justifications. I will admit that all these things should be done in the interest of national defense, but I don't have that much money to give you. Now, I have more confidence in your ability to distribute the money than I have in my own. I have to cut you down. I will have to cut you fifteen percent, and you distribute the money."

Your plans necessarily have to be so flexible and your priorities established in such a way that you are in a position to find out what you must cut out. It is not the most logical way to do it, but it is a thing that will have to be done increasingly in view of this chart down here, the nation debt. Our plans must be so flexible that we can do the thing almost instantly from an administrative point of view.

QUESTION: Why doesn't the War Department work on the basis that it is going to get so much money and go down to the agencies and say, "This is your job," instead of building from the bottom up? The President comes down and says, "You get 5.4 billion dollars." The Department wants 15 billion dollars, so you have to change your plans.

COLONEL McCULLOCH: The only way I can answer that is that the Budget and Accounting Act of 1921 requires it to be done in the prescribed manner.

COLONEL NEIS: That figure of 279 billion for the national debt is quite a striking one. I was just wondering if there are not a lot of assets which might help to balance that; like TVA: postoffices around the country; installations of the Military Establishment; real estate developments, and all these things. Has there been any attempt made to appraise those assets against that obligation to show whether we are in a red position or a black one? Can you give us any idea on that?

COLONEL McCULLOCH: There is no appraisal of assets contained in the Treasury Department report and this is taken from the Treasury Department report. There, of course, are assets, a considerable number of assets. We have the Pentagon Building.

I do think this: that one way of looking at that figure is to try to make up your mind what it might be had there been no wars. We probably may have a different type of assets, like schools, playgrounds, hospitals and housing

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COLONEL McKENZIE: I think we are all thoroughly alive to the problem of finance, even to the fact that on the fifth day of January we will begin to worry about our personal finances a little bit.

I keep thinking of this national debt, Colonel Neis, in terms of a man who might be owning an expensive residence that he had all on loan, which returns him nothing except occupancy, as opposed to the man who might be spending an equivalent amount of money for an industrial plant which is making a return. This is a debt that we are paying a service charge on. It is a debt that I think we expect to repay without liquidating our assets. Of course, they must be in being and many of them would have no value other than in the maintenance of the Federal Establishment.

Colonel McCulloch, I want to thank you very much for your painstaking effort to tell us about finance this morning. Thank you very much.

(14 January 1948--450)S/mwg

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