

DETERMINED TO BE AN  
ADMINISTRATIVE MARKING  
E.O. 11652, Section 1  
By DC NLE, Date 11/29/71

MINUTES OF CABINET MEETING

407396


June 3, 1957  
10:30 A. M. ---- 12:10 P. M.

The following were present:

President Eisenhower

Vice President Nixon	Sec. Quarles
Deputy Under Sec. Robert Murphy (for Sec. Dulles)	Mr. Floete, GSA
Sec. Humphrey	Mr. Hollister, ICA
Sec. Wilson	Adm. Strauss, AEC
Deputy Atty. Gen. Rogers (for Mr. Brownell)	Gen. Persons
Deputy PMG Stans (for Mr. Summerfield)	Mr. Rabb
Sec. Seaton	Gen. Goodpaster
Sec. Benson	Mr. Shanley
Under Sec. James O'Connell (for Sec. Mitchell)	Mr. Morgan
Sec. Weeks	Gen. Cutler
Under Sec. John A. Perkins (for Sec. Folsom)	Gov. Pyle
	Mrs. Wheaton
	Mr. Patterson
	Mr. Minnich

Director Brundage and  
Mr. A. W. Jones  
Deputy Director ODM Cooley  
(for Mr. Gordon Gray)  
Dr. Saulnier  
Chrm. Ellsworth

  
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Budget Policies, 1959 - 1962 -- The President introduced this one-item agenda by urging that the agencies make all possible effort to pay off current bills prior to the end of the fiscal year to the extent possible without incurring a deficit for the year.

The President then stated his major purpose of getting the budget cut to some point under \$70 billion annually.

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In regard to atomic energy, the President said generally that program expansion seemed unnecessary except in regard to peaceful uses of

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atomic energy. He agreed with Adm. Strauss that the large increase for peaceful uses was in order. Adm. Strauss pointed out a second contemplated increase for weapons. The President would not immediately admit need for expanding this program since he thought it fully adequate to continue production at present rates. Adm. Strauss noted the newness of the effort on small weapons, as for air defense, of which great numbers are required.

The President ascertained that overtime wages were being paid only by AEC (for supervisory personnel at the plant under strike), Defense (on missiles), Post Office (Christmas mail), and Agriculture (forest fires). The President thought it might be time to stop payment of overtime on missile programs.

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On budget trends generally, Mr. Brundage first pointed out that the Bureau would by June 30 transmit approved policies and planning figures to the agency heads for their guidance in preparing the detailed estimates due in September. He set as major objectives for the next four years (a) achievement of a surplus of receipts, (b) reduction of taxes, (c) debt reduction, and (d) better control of spending. He noted that the trend of expenditures in 1956-58 has been upwards and he asserted that even optimistic estimates of receipts barely provided for covering the increased expenditures. He noted further that if expenditures could be held at current levels, then even the pessimistic estimates on receipts indicated a budget surplus. To hold expenditures at \$70 billion, he said, would require reduction of Defense Department personnel and procurement, holding the line on research and development, deferment of new programs, reappraisal of approved legislative programs, abandonment of some Administration programs, resistance to Congressional increases of appropriations, determined efforts to secure legislative reductions of appropriations, and generally a cutback of planned expenditures to the 1957 level.

Mr. Brundage circulated and recovered memoranda setting forth the consolidated departmental figures for FY 1959. He recognized that the agencies would require some time for studying them and that further Cabinet discussion could ensue. The President postponed detailed discussion of these figures until another week so they could be studied. He then asked for general comments.

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Defense Department fiscal problems were discussed at length by Sec. Wilson. He stated that he had held up \$500 million of appropriations in the latter part of FY 1957, and he pointed out that further drastic measures would be required to return to the \$38 billion level. He said

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he had asked the Service Secretaries to inform him about the actions necessary to return to that level. He stressed the adverse effect of inflation, since 80% of Defense obligations are subject to price increases during production. In answer to a query of the President, he pointed out the difficulty of attracting bidders on complex projects since it was expensive even to prepare a bid. He felt that excess profits recoveries provided protection whenever not much competitive bidding occurred.

Sec. Wilson expressed some doubts about the value of the proposal soon to be discussed in Congress for partial financing. He thought a better solution would be the "service obligation program" which would provide better control by 1958.

He felt that further progress could be made in management economies but that programs would have to be cut to secure major savings.

The President stressed the need for setting initially the goal of a \$38 billion level even though it might be necessary to settle finally on \$39 billion. He thought it quite possible for Defense to reduce military personnel by 300,000 since the resultant level would still be 2,500,000. Later, the President remarked on the unreality of the initial request of \$48 billion by the Chiefs of Staff last year.

The President stated his desire to look at Defense spending on basic research -- which he had always thought to be primarily the responsibility of private institutions. Mr. Brundage said a summary would soon be ready.

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Sec. Benson asserted that additional legislation would be necessary before extensive reductions could be made, particularly with regard to CCC expenditures which cannot otherwise be controlled. He indicated that Agriculture was following up on the Sen. Ellender letter very vigorously but he could not be sure that legislation would be accomplished this session. He pointed out instances where Federal receipts are increased greatly by small expenditure increases, such as construction of forest roads which allows increased sale of timber rights. Mr. Benson noted that Congress would not act on Agriculture's request for reduced conservation payments.

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Sec. Humphrey noted the tendencies toward inflation which would inevitably cause Defense overruns. He felt that monetary measures would have to be supplemented by major reductions in Federal spending to stop inflation. This, he thought, would require redeployment of military forces and drastic limitation "in several lines". Among other things he emphasized the desirability of obtaining a sharper distinction between Federal and State activities. He realized much time would be required to effect

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necessary changes. Sec. Wilson thought that the labor situation rather than Federal expenditures was the principal force behind inflation, but Sec. Humphrey felt that Federal expenditures contributed heavily to labor's ability to demand wage increases. Sec. Wilson cited other contributory factors.

The President brought the discussion back from the philosophical level to the practical by emphasizing the need for accomplishing desired objectives by degrees and thus at least stopping the acceleration of Federal spending, fighting legislative increases in appropriations, and establishing desirable trends.

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Sec. Weeks commented on reductions accepted by the Commerce Department. The President thought the Administration should seek restoration of the Civil Aeronautics funds which were greatly needed. He suggested that perhaps the user charges for airport facilities could help more to carry the load.

Sec. Seaton noted the unapproved projects presently included in the public works bill. The President believed no new starts should be made until the projects were properly cleared.

Acting Sec. Perkins noted various aspects of HEW programs and the political controversies that arise over proposals for reductions in things like the school lunch program.

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The President concluded the discussion by reminding the Cabinet that the Administration had to be even more realistic about controlling expenditures in view of the huge national debt. Otherwise, he feared, more and more controls would have to be established so that the United States by degrees would be adopting a different economic system than has been traditional. In this connection, he noted Mr. Khrushchev's reference recently to the basic tenets of Leninism which predicted that capitalism would fail because of its internal conflicts. He thought that more attention must be paid even to the little things and particularly in military budgets where, he knew so well, money was often forced upon commanders. Following a reference to mutual security by Mr. Hollister, the President again expressed his belief that such expenditures repaid themselves many-fold and that the mutual security program was the great hope of the United States for the future.

Copies to:  
Mrs. Whitman (2) ✓  
Mr. Rabb  
Mr. Minnich

*LAM*  
L. A. Minnich, Jr.

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